

Original Article

# A Famous Commodity Money: Gold Standard in the United States

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**Abstract:** This article examines the special nature of gold and how gold was at one time used as the standard for American money. Eventually, the United States dropped the gold standard and adopted fiat currency. Gold is valuable due to its scarcity, luster, and metallic nature, and when 100 percent gold, it is absent of rust or tarnish. There was a way the US came off the gold standard. This was done in 1971 when President Nixon and his associates decided not to let American currency be converted into gold. Nixon pursued this line of action since gold was being drained from the US at too great a magnitude. In 1973, the United States abandoned the gold standard altogether. There are there requirements for something to be money. There is something that must be a medium of exchange; it must hold its value, and it must be divisiatble by a unit of account. This was true for gold, and now it is true for fiat money, as well. Gold can meet the requirements for being money; however, it is difficult to extract any valuable gold. The money supply has to be flexible enough to allow commerce to happen. Economists are expected to know some facts about gold, as it is a famous, valuable commodity and has been a monetary standard at different times and places. Gold is a valuable commodity of precious metal. Two other precious metals are silver and platinum (Fernando, 2022; Broomberg, 2023). While silver and gold have been used as money but, platinum is so rare that it is usually not used for money (Bloomberg, 2023). There are three requirements for something to be money. It serves as a medium of exchange and holds value, and there must be a unit of account for that money (Mishkin, 2019; Broomberg, 2023). Gold is lustrous and has metallic qualities, is relatively scarce and there are difficulties in extracting gold. All of these traits serve to make gold valuable (Broomberg, 2023). Gold is often seen as a hedge against inflation (Hayes, 2023). If something is 100 percent gold, it will not tarnish or rust. However, if something is only partially gold, the other ingredients of the material may tarnish or rust (AZRUST, 2023). The next section of these articles explains the currency system of the United States. The two sections after that concern the Gold Standard. The last section is a summary and conclusion.

**Keywords:** Gold Standard for American dollars; Federal Reserve Bank; Fiat Currency; Breton Woods Agreement; Removal of Gold Standard.

**JEL CODES:** E00, E 40, E42, E50.

## I. FULL FAITH AND CREDIT OF THE UNITED STATES

The full faith and credit of the federal government are what backs up the currency system of the United States. At this time, gold and silver have no part in determining the value of American currency. In the history of the United States, there have been times when some type of metallic standard has backed up the currency. This metallic standard has sometimes been based on a bimetallic standard, from a silver and gold basis (Elwell, 2011). A small number of politicians have advocated the adoption of a gold standard at this time. Federal Reserve Board Chair Jerome Powell thinks adopting a gold standard would be a mistake for the United States. He states that problems with deflation may occur (Christenson, 2022).

## II. GOLD STANDARD FOR MONEY

A monetary system known as the gold standard establishes a direct correlation between the value of a nation's paper money and gold. Countries that participate in the gold standard agree to exchange paper money for a set quantity of gold. The United States dollar became the main reserve currency after the Bretton Woods Accord. (Loudis, 2023). As of right now, no government makes use of the gold standard. Actually, in 1931, Britain abandoned the gold standard (Loudis, 2023). Almost all nations came off the gold standard during the Great Depression. However, the Bretton Woods agreement in 1944 made plans for the US dollar to be convertible into gold, and the major currencies of the World were pegged to the dollar (Cantania, 1997; Bordo, 2002; Hart, 2013; Gentle, 2016; Mishkin 2018). Significantly, it was in 1971 when Richard Nixon was President, and John Connally was Secretary of the US Treasurer (Feldstein, 2013, World Gold Council, 2023). At that time, Volker was Under Secretary of Monetary Affairs. During this time, those three men were among those who recommended the suspension of the gold standard in the international payments system employed by the United States. There was the view that this was a



complex but compulsory decision because using the fixed exchange rate of \$35 per ounce of gold was causing a considerable drain on the gold supply of the United States (Feldstein, 2013; Hart, 2013; World Gold Council, 2023). In 1973, the United States abandoned the gold standard altogether. Although this suspension did not officially eliminate the existing Bretton Woods system of international system of financial exchange, this suspension of one of a US dollar's gold convertibility in fact, rendered the Bretton Woods system inoperative. And so any policy of convertibility was dropped (Elwell, 2011; Hasenstab, 2017; Oatley, 2019; Broomberg, 2023).

Interestingly, at one time, economies of the world operated on coins, and that was the situation for more than a thousand years. (Goldstein, 2020; Goldstein and Smith, 2020) Gold, silver and bronze were amongst the most common ways of exchanging goods and services. However, China had an advancement in the form of paper money (Goldstein et al, 2020). The advent of paper money made it easier to facilitate transactions between economic people. Therefore, the amount of commerce increases for that country (Davies, 2022; Baron, 2020). Paper currency can be commodity based, such as being based on a gold standard or be fiat currency (Baron, 2020; Goldstein et al., 2020).

### III. ATTRIBUTES OF A GOLD STANDARD

A monetary system that uses a gold standard has a currency whose value is based on gold (Loudis, 2023). An appeal of a gold standard is that it lessens inflation, depending on how the government pegs gold to a definite price. Some people believe this can control inflation. Actually, monetary policy should guard against excessive inflation and against deflation (Loudis, 2023). When there is a monetary system that has convertibility in gold, there is a problem with a lack of flexibility. There are times when the supply of gold-based money cannot keep pace with its demand (Loudis, 2013).

Furthermore, mining gold is costly and creates negative bioenvironmental externalities (Loudis, 2013). Since the U.S. is not the biggest producer of gold, the US may be affected by other country's production of gold (Hasenstab, 2017). An alternative to a gold standard can be fiat money. "Fiat money is money without intrinsic value that is used as money because of government decree" (Elwell, 2011).

Loudis (2023) states, "A brief history of the US gold standard is enough to show that when such a simple rule is adopted, inflation can be avoided, but strict adherence to that rule can create economic instability if not political unrest."

### IV. SUMMARY AND CONCLUSION

This article has examined some issues about the gold standard formerly used by the United States. In 1971, the United States stopped routinely converting US dollars to gold. It was in 1973 that the United States abandoned the gold standard altogether. The three requirements for something to be money are that it serves as a medium of exchange, holds its value and can be divided up into units of account. Money based on a precious metal can fulfill these requirements, and fiat money can also achieve these goals. Some economists believe fiat currency may be able to adjust better to the changing economy of a country. This issue of using gold vs. fiat money will always be a matter of debate. Gold, silver and platinum are three examples of precious metals. However, gold and silver are the most commonly used as money. (See Gentle, 2024 for the interrelationship between gold and silver.)

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