



Back To The Gold Standard -- and the Great Depression

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January 31, 2012

This is an interesting question. You know, we have Ron Paul's enjoying a little bit of a renaissance. And it raises the question, however unlikely it might be that Ron Paul becomes the next president, should we be taking seriously this notion that the U.S. should return to the gold standard? I think the desire to do this is from a very reasonable position, which is the concern that the fed's monetary policy over the last four years has been so unconventional that it raises the long-term risk of inflation, it raises the long-term risk to the dollar.

That said, whether or not you agree with the fed, it would be very difficult, bordering on impossible, for a \$15 trillion economy in 2012 to return to the gold standard or anything resembling the gold standard.

So the big concern about going back to the gold standard would be the following. You'd think that under the gold standard, there's going to be some relationship the amount of gold the U.S. has and the amount of money in circulation. There is a lot less gold than there is money in circulation. Now it's very reasonable to argue there is too much money in circulation, and this is going to come back to haunt us. But to try to bring down the supply of money that quickly would be the equivalent of a very significant credit contraction.

In other words, the availability of money, the availability of loans would contract. This would be problematic even in a strong economy, which obviously we don't have. In a weak economy, when bank lending is already very weak, when the labor market is very weak, to have loans called in, to have the amount of money in circulation be pulling back that quickly, you would run the risk of actually another Great Depression. So again, it's a very



worthwhile goal to have a sound monetary policy, have a strong dollar. This is probably not the way to go about it.

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