The effects of gold on the world monetary system

Business

The effects of Gold on the world monetary system Gold has been the basis of monetary systems for many years. Gold was the basic reserve asset in France and United States. In the past, gold had very limited secondary use; it served primarily as money. Today, modern technology has discovered more applications of gold in industries, thus reducing the amount of gold. Use of gold system policies had various achievements compared to the use of notes. In case one country fixes the relative price of gold, all the countries using the gold standard has to fix the relative price with that country's price fix. Use of the gold standard in a monetary system owes more benefit than the use of paper money. The world today has favored the use of paper money rather than using the gold standard. However, many people have defended the use of the gold standard to using paper money. Such defenders include Stephen Forbes and Jack Kemp. The use of paper money allows the governments to regulate the amount of money in supply. A corrupt government may opt to pay its bills through printing more money, which causes inflation. If a government uses gold standards, it would be unlikely that it gets the opportunity of devaluing its currency. It is not possible to have inflation if the gold standard is used. In a situation, where gold standard is used the total value of money in circulation would be fixed. Hence, the market would adjust efficiently when gold standard policy is used. A government that uses paper money may opt to reduce the amount of money in supply, which may lead to a recession in the economy. However, where gold standards are used, cases of recession are unlikely to occur (Lehrman 46). Use of the gold standard ensures the determination of the purchasing power without taking in to consideration government policies. Use of paper money gives the government authority in making policies that may regulate the amount of money that is in supply. It is not likely that a government control the amount of gold in supply. Governments would never try to limit the amount of gold that is supply. Making of policies to regulate gold supplies is the last option that any government would pursue. Hence, use of the gold standard discourages any political control. Use of paper money will always attract controls from the government, but gold use cannot attract such controls. Mainstream economists have argued that, unscrupulous governments may create inflation or unemployment in an economy resulting from the use of paper money. This is possible due to the government's policies, which influence the supply of money that is in circulation. On the other hand, use of the gold standard ensures that there is a steady supply, which is usually regulated by the market (Lehrman 49). The governments cannot regulate gold in circulation and; hence, it is not possible to influence the supply of gold that would result to unemployment and inflation in the economy. Thus, use of gold has better results in the economy than use of paper money. Use of gold standards ensures uniformity of exchange rates. When there is uniformity in the exchange rates, countries feel safe to trade with other countries. Use of gold in the exchange opposes currency devaluation of one country to another. It is not possible to rate exchange rates differently when using gold as a mode of exchange. The bearer of the gold changes, but the gold does not change. Gold always remain at a constant rate as opposed to the paper money. Many governments pass policies that tend to strengthen the value of their currencies. This makes the currencies have varying exchange rates towards other currencies. Nevertheless, with gold, government cannot endorse policies that will hike the value of gold. In case, one country fixes the value of gold, the change is effected worldwide. For this reason, gold standard still stands as the best policy since it unifies the exchange rate system (Spatola 64). Uncertainty is the main reason for many countries pulling out of trading. Paper money brings about competition of currency that leads to devaluation and strengthening of some currencies. Because of government policies that devaluate or strengthen currencies, the exchange rate system differs greatly from time to time. This makes international trading uncertain. However, with the use gold standards, gold use ensures that there are no risks of uncertainties in international trading since the exchange rate system always uniform. A country will always feel safe trading with another country if the exchange rate system is uniform worldwide. Gold ensures certainty in international trade through the provision of a fixed exchange rate pattern. Conclusion Use of gold as a medium of exchange in the whole world would benefit all the countries that would be involved in international trade. It would have an effect of lowering commodity prices as a result of its use. Since governments cannot influence the supply of gold in circulation, use of gold would prevent cases of inflation and unemployment. Hence, governments should seek the use of gold standards. Works Cited Lehrman, Lewis. The True Gold Standard - A Monetary Reform Plan without Official Reserve Currencies. New York: The Lehrman Institute, 2011. Print Spatola, Jamie. The Gold Standard: Building a World-Class Team (Business Plus). Boston: Business Plus, 2010. Print. Lehrman, Paul Ron. The Case for Gold. Denver: Ludwig von Mises Institute, 2007. Print.