A "Gold Standard" Isn't Viable Unless Supported by Sufficiently FlexibleMonetary and Fiscal Policy /

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Monografía

The paper studies an idealized gold standard in a two-country setting. Without flexible national domestic credit expansion (dce)policies which offset the effect of money demand shocks on international gold reserves, the gold standard collapses with certainty in finite time through a speculative selling attack against one of the currencies. Various policies for postponing a collapse are considered. When a responsive dce policy eliminates the danger of a run on a country's reserves, the exogenous shocks disturbing the system which previously were reflected in reserve flows, now show up in the behaviour of the public debt. Unless the primary (non-interest) government deficit is permitted to respond to these shocks, the public debt is likely to rise (or fall) to unsustainable levels. For the idealized gold standard analysed in the paper, viability can be achieved only through the active and flexible use of monetary and fiscal policy

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