Gold trading standard may return

17.5.2011

I hate to say I told you so!

For the past few years I have gone on and on about the US Dollar trading standard and its shortcomings. As I have expressed on many occasions that I believe governments around the world have been in secret talks about this for some time now.

As many members know over two years ago I predicted the possible replacements to be the resurgence of the gold trading standard or a basket of currencies, such as the Renminbi, Yen and Euro and Sterling.

Featured below is a recent release to the US press.

Forbes magazine founder Steve Forbes "The United States will likely go back on the gold standard within five years in order to correct fiscal and monetary imbalances", says former GOP presidential candidate and Forbes Magazine Publisher Steve Forbes.

The gold standard, under which the dollar is pegged to gold instead of other currencies, as it is today, was abandoned by President Richard Nixon in 1971.

"What seems astonishing today could become conventional wisdom in a short period of time," says Forbes, according to Human Events, a conservative media website.

Steve Forbes
(Getty Images photo)

A return to the gold standard would stabilize the dollar by discouraging hefty fiscal spending as well as preventing the Federal Reserve from printing excess money.

"People know that something is wrong with the dollar," Forbes says, adding "you cannot trash your money without repercussions."

The dollar would not only be stronger today if the gold standard were in place, it would be less volatile.

Currency volatility has helped open the doors for speculators to invest in commodities as a hedge against swinging currency values, which has helped stoke inflationary concerns.

Harder to Borrow

Under a gold standard, it is "much harder" for governments to borrow excessively like they are doing today, Forbes says. The housing bubble, partly the product of loose monetary policy, would never have been so severe under a gold standard.

"When it comes to exchange rates and monetary policy, people often don’t grasp what is at stake for the economy”, Forbes says and adds that “By restoring the gold standard, the country would move away from "less responsible policies" and toward a stronger dollar and a stronger America”.

Further, "If the dollar was as good as gold, other countries would want to buy it."

Talk of returning the country to the gold standard has risen in recent months. Sean Fieler and Jeffrey Bell, respectively the chairman and policy director of the American Principles Project, say resurrecting the gold standard can tame the Federal Reserve's money-printing campaign.

"Members of Congress seeking to restrict the Fed's power need to consider what oppositional force is truly capable of hemming it in," the two write in a recent The Wall Street Journal editorial.

"One answer is a revived gold standard, which would once again obligate the Fed to redeem dollars for gold at a fixed rate."

With the dollar weakening and with the Fed in no hurry to change its policies, gold has been soaring. Precious metals often do when paper currencies soften.

Gold recently hit a record $1,577.57 an ounce, which is six times higher than the precious metal’s low in August 1999, according to Bloomberg.

Gold's rally did take a breather recently, falling 1.6 percent after the Wall Street Journal reported that Soros Fund Management sold precious metal assets.

Still, others say the metal has some way to go before truly peaking.

"I'm bullish on gold despite its current levels," says Hal Lehr, Deutsche Bank’s Managing Director for cross-commodity trading, according to Bloomberg.

"It could reach $2,000 an ounce in the next eight months."

A return of the Gold trading standard would bode well for RIO Professional Investors fund which trades Gold. Whether or not this transpires Gold will continue its rise as long as the fed continues its current policies.

William Gray