GOLD STANDARD : FORMS

DEINITIONS AND ESSENTIALS OF GOLD STANDARD

There is a common concept about the gold standard that in this system it is essential that gold currency must continue in circulation, but it is not so in reality.

1. According to *Robertson*, “Gold Standard is a situation under which a country maintains the same value of a unit of its currency and a definite quantity of gold.”

2. According to *Hawtrey*, “Under gold standard the value of gold is fixed in currency and in this way a relation between gold and currency is established.”

3. According to *Coulborn*, " Gold Standard is a system under which a unit of the main currency of the country is interconvertible with a definite quantity of a certain variety of gold."

4. According to *Crowther*, "When a currency is convertible to gold by any law, such a currency system is called gold standard."

FORMS OF GOLD STANDARD

The forms of gold standard change with time and circumstances. In the modern age,

(i) Gold Currency Standard,
(ii)Gold Bullion Standard
(iii)Gold Exchange Standard
(iv)Gold Reserve Standard, and
(v)Gold parity Standard.

(i) GOLD CURRENCY STANDARD

Gold Currency Standard is the oldest form of gold standard. It is also called as gold coin standard, traditional gold standard, orthodex gold standard and full gold standard.

Characteristics: 1. The gold coins remain in circulation and amount of gold is fixed by law. 2. Gold currency is full-bodies coins, which means its face value, market value and internal value are almost equal, which means its face value, market value and internal value are almost equal. 3. To support the main currency of the country subsidiary currencies of cheap and light metals are also in circulation.

(ii) GOLD BULLION STANDARD

Evolution and use of gold Bullion Standard

Gold currency standard was in use in most of the countries of the world before the world war I, but it was not possible to maintain it during and after the war. So, a new system was adopted in which it was not essential to keep gold coins in use. Under this system paper currency and symbolic remained in use and the value of currency was fixed in gold. The government provided the convenience of selling and purchasing gold at that rate. This way the price of currency got fixed in gold and people could get gold from the government for any work at a certain rate.

(iii) GOLD EXCHANGE STANDARD

Why gold Exchange Standard evolution? Both Gold Currency Standard and Gold Bullion Standard are expensive system because both of these need a lot of gold for currency system. The main cause of the special need of gold is that the government is compelled to give gold for both domestic uses and foreign payments. To solve this difficulty, such a standard was found out in which the government determines the price of gold in currency and also maintains gold reserves but gold is not given to people for domestic uses. For the foreign payments, the government either manages gold or arranges the needed foreign currency. To manage this system gold or foreign currency reserves are kept in foreign countries.

(iv) GOLD RESERVE STANDARD

There has developed a difficulty of maintaining a stable rate of foreign exchange after all the countries abandoned gold standards. To solve this difficulty, exchange equalization fund was established by England in 1932 to maintain stability in foreign exchange by sell and purchase of foreign currencies. Later, similar funds were setup by the USA and France too. After the setting up of exchange equalisation fund in these countries, an agreement was signed among these three countries in 1936 and it was called. “Tripartite Monetary Agreement.” According to this agreement, the value of gold could not be changed unilaterally without consulting one another and the import-export of gold could be done on the government level. After some times, Belgium, Netherlands and Switzerland also involved in this agreement. The currency system adopted by the countries on the basis of this agreement is known as Gold Reserve Standard. This system lasted for very short time and ended just after the beginning of the world war II.

(V) GOLD PARITY STANDARD

In the modern time, it is very difficult to adopt any such monetary system that should be directly dependent on gold or in which there should be the system of giving gold in return for currency because there is extreme scarcity of gold with most of the countries of the world. Considering this point of view, a new international monetary system had been established by the International Monetary Fund. It was named Gold Party standard. Some economists also call it gold exchange standard.

Under Gold Parity Standard all members of the International Monetary Fund kept some gold reserves with the IMF determined by it. Besides it, all the currencies were associated with dollar which means the value of the currency of every country was determined in dollar. At the same time, the gold value of every currency was also declared. Thus, along with determining the mutual parity of the currencies of member countries their prices in gold were also determined. If there was a possibility of increase or decrease in the price of the currency of a country, an arrangement was made to maintain it at determined level by the International Monetary Fund.