

RETURN TO RICARDO OR TO THE GOLD STANDARD

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Abstract

World price development of gold illustrates its rising popularity during the last decade. It is possible to signify this price growth rate during the last six years as a very fast. Current price is six times more than 2001 reference price. Is it a consequence of inflation tendencies, government interventions or possibly more and more limited gold quantity? Maybe it is a real proof of investors' effort to find a risk free asset for maintenance and eventually expression of current value of their wealth in today's overextended world.

Key words: gold, price growth of gold, risk free asset, measure of value

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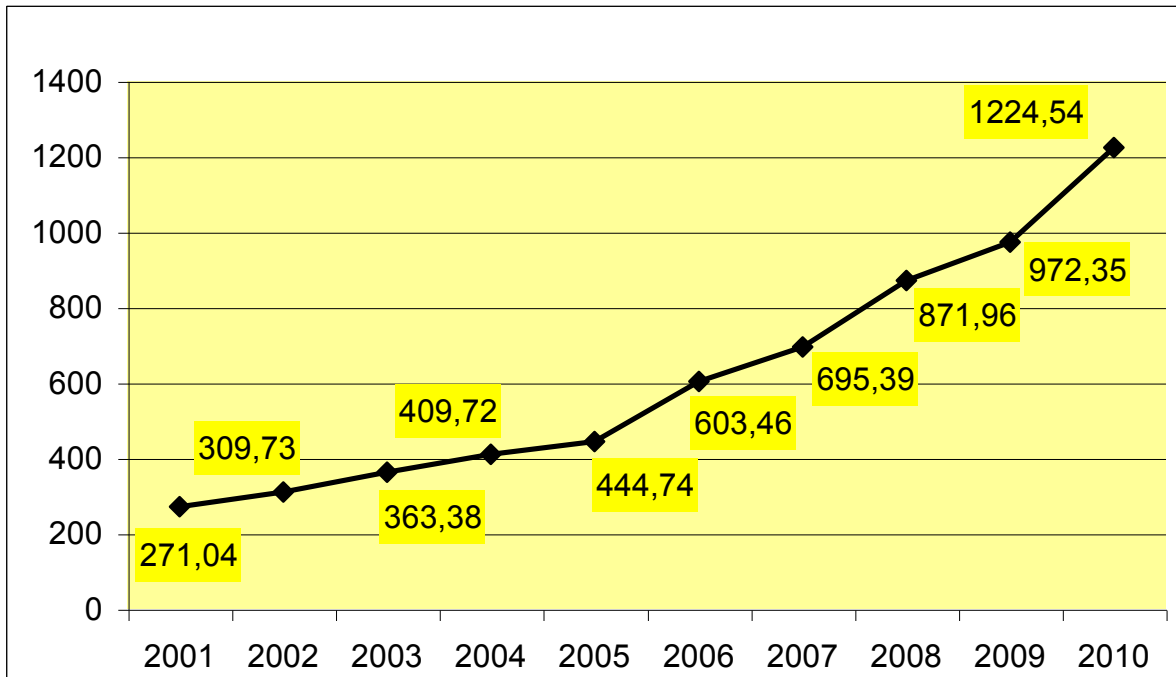
Introduction

Gold has been playing an important role in human existence for ages. Historically it has been associated with wars, lust for power, disordering, rioting and holding up. At the same time gold was the impulse to the overseas discovering and the trade development. Gold in fairy tales makes Simple Simon happy, as a reward for doing heroic deeds. Thanks to this gold is the personification of successful, satisfied and comfortable life.

1 The background of gold popularity

Recently, gold has been still demanded commodity. Its popularity and reference has been reflected with the monetary value, which has been markedly rising since 2005. Moreover, the actual prognostication for this situation is going on thanks to the interests of the investors. The fact, that gold is remarkable commodity, in contrast to stocks, bonds and other assets, was documented by price development during the financial crisis in the year 2007. Thanks to this, gold can be considered as a risk free asset not only by investors, but also by general public.

Fig. 1: Gold price trend chart 2001 – 2010
(yearly cumulative average prices, \$ U.S./ounce)



source: <http://www.kitco.com/charts/historicalgold.html>

What can be the background of never-ending interest of purchasers? The fact is, that both the price trend of the last time and optimistic expectation of the future price development have been showing that there are not probably many alternatives with the same or higher revenues, close to the given risk. Are the rising price and profitability the only incentive for the gold holding?

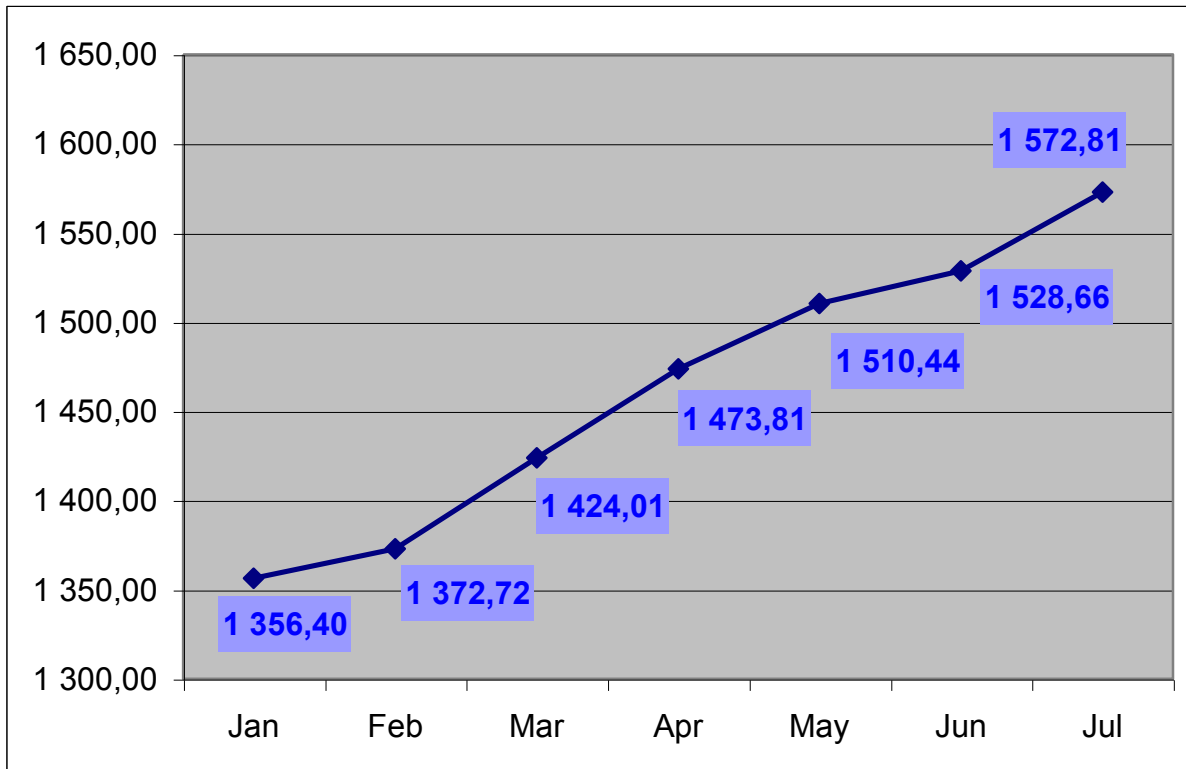
1.1 History and tradion – gold as a treasure

Gold has been always closely related to the treasure and wealth. Full- bodied money was the treasure as well, that's why it could guarantee the wealth's value solidly¹. But contemporary debt- covered money has lost this characteristic due to easier difficulty of its emission. Considering, nowadays currencies have not been even gold-covered²; money and treasure were separated evolutionary. On the other side, this fact has been known for more than thirty years, and though it can be one of the potential motives of raising the demand. It can be hard to use it for the explanation of the gold trade events in last years, reflecting by the records in prices.

¹ From history there are known many cases of adulteration of coining.

² American president Richard Nixon definitely ended convertibility of the dollar to gold on August 1971.

Fig. 2: Gold price trend chart 2011
(monthly cumulative average prices, \$ U.S./ounce)



source: <http://www.kitco.com/charts/historicalgold.html>

1.2 Cumulative debts and inflation fears - gold as a keeper of value

Permanent and still increasing deficits of the public finance in the range of the developed economics, leading to the Greece “rescue” actions or to the rising roof over the US debt, have reflected by the gold price trend undoubtedly. Stake holders are obviously aware of the potential threat, related to still more difficult debts repaying, and intensified by the indebtedness of households. And also the vision of the next future is not even optimistic at this point in time. More and more other economics (like Spain, Italy, Portugal...) have been getting into the troubles, governments actions are populist-targeted mainly, and discovering of the debt amortization is far away. This situation can be worse, considering reduction of the domestic productions, their Far East relocation, related to the outflows of investments, technology, and know-how; and finally ended in a gradual loss of competitiveness. From this point of view, gold can represent some kind of guarantor or keeping of value.

1.3 Searching for measure of value – gold as a potential unit of account

The impulse of contemporary “gold rush” may be worry about fudging the issue information, caused by increasing inflation in the future. And so it can happen that the contemporary gold purchasers try to find gold to be the measure of value as well as David Ricardo at the beginning of 19th century³. In the view of the fact that the value of gold is stable to the limited extraction, gold can fulfil the function of an invariant measure of value.

Conclusion

Can be these contemporary events regarded as a return to the gold standard maybe to the 19th century? The 40th anniversary of the gold standard ending can be in context of the present day a bit paradoxical.

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³ Ricardo try to identify relation between depreciation of pounds and the gold price in his work „The high Price of Bullion“.