RECREATING THE GOLD STANDARD

ECONOMIC CRISIS IN GREECE:
Before 2008, there was no need for the political surplus recycling mechanism, but once America couldn’t meet Europe’s demand for exports, the doom loop began between insolvent banks and insolvent European nations such as Greece. When America’s 2008 financial crisis reached Europe in 2009 and when need for the mechanism was at its highest to reduce the growing trade imbalances, it was impossible to implement any mechanism under the euro regime (Varoufakis, 2016). The crisis is reflective of the depression of the 1930’s as seen in the graph above.

Why maintain fixed exchange rates? In the gold standard regime, currency devaluation was forced by fears of inflation. Similar evidence exists in why countries such as Greece are keeping the euro: a return to the ‘old’ currency would be hostile and inflation is likely to sharply increase (Morris, 2014). In the debt crisis, Greece was left with two options: borrow at restrictive rates or lower GDP at impossible rates (Wilsher, 2014).