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Making the move from gold to fiat currencies by [David Ricks](#)

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One of the most ancient forms of money is that of gold. This has been used a monetary system by people who wanted to buy something as well as by nations that wanted to barter on a larger scale. A gold standard is simply a monetary system whereby paper currency, which has its value directly based on a cache of gold, is in circulation. Currencies that are based on a gold standard are also fixed in comparison with one another making it easier to predict a change in its value.

A different form of the gold standard is that of fiat currency where paper money is directly fixed by central banks in a country and can go up and down in value depending on the supply of money that is in circulation. When a reference is made to gold standard, it is generally in association with the International Gold Standard that was set up in late 19th century. This was started by a silver currency crisis originating in England and moving onto the states. The silver, the International Gold Standard came into effect in 1871 when a unified Germany put for the Reichsmark as a strong gold standard currency. By the turn of 1900, almost the whole world began to follow the gold standard.

The first time the gold standard took a beating was in the World War I. Britain found the cost of the war prohibitive and moved from the gold standard to that of fiat currency. As per the conditions of the Treaty of Versailles, Germany too ended up surrendering a huge portion of its gold store. One of the major side effects was that it did not have enough to remain on the gold standard and being the industrial power that it was, needed to make the shift to fiat currencies as well.

By the 1920s, most countries had made the shift to fiat currencies, whereas Germany and Britain tried going back to it again. The International Gold Standard was finally put to rest in 1933 at the London Conference. This happened when almost all the nations at the conference were unable to come to a consensus as to what the value of gold should be.

With the arrival of the fiat currency, nations were able to expand on their global trade rather significantly. Because gold and its supply was slow to grow, it resulted in being quite deflationary. In fact, the US suffered from a deflated economy for 14 years after it shifted away from the gold standard.

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