

Gold vs Bitcoin-And Why Would We Want Them

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February 8, 2021

Recently, there have been some concerns being raised about the amount of money being printed around the world. This was the case before the pandemic and is becoming even more relevant as the stimulus continues to flow and the printing presses work double shifts. But are these worries about the increasing money supply warranted?

Part of the bitcoin's popularity and gold approaching new highs is due to this. Let's take a look at each of these paper money alternatives.

Let's quickly remind everyone what money actually is. There are three components: 1) it must be a store of value. Meaning if you get your paycheque today, what you get paid will be acceptable to be exchanged for goods and services now, or a year from now. 2) it needs to be a measure of value-it can be used to value the new car or home and, 3) it must be widely accepted. The US dollar is currently the most accepted medium of exchange the world has.

Gold and silver have both been our most ancient forms of money. Well, sheep and seashells were sometimes used but the sheep often had steep depreciating value when most of the world had wolves. Gold and silver coins were used by most of histories empires. And as a prelude to today's printing concerns, every one of them diluted the precious metals in their coins with less precious ones. The Roman silver denarius went from 95% silver to 95% bronze over the course of two hundred years.

The world's reserve currency, the US dollar, was convertible into gold and silver until 1971. An ounce of gold backed \$20.67 US dollars from 1792 until 1934 and from 1934-1971 \$35 greenbacks. With gold now trading at \$1800 dollars per ounce the debasement is obvious. Hence the concern of money supply hawks.

So gold has met the three criteria of money in the past and could still today. One aside on the silver to gold ratio. The ratio of the price of an ounce of silver to an ounce of gold is close to an historic high today so this could be part of the reason the Reddit Wallstreetbeat crowd were buying silver the last couple of weeks.

Bitcoin is a cryptocurrency not backed by any sovereign government but by a decentralized authority. Bitcoin is transparent through it's blockchain ledger. This means that anyone can see each transaction that occurs. Blockchains are not exclusive to bitcoin and they offer security and anonymity. This feature is integral to providing investors and users to trust that the likelihood of counterfeit bitcoins will be very unlikely. They also allow buyers and sellers to trust that their transaction will be honoured. There have been some high profile cases of digital theft but these should be corrected as the infrastructure for bitcoin matures.

Bitcoin is gaining more and more traction as a medium of exchange. Just this morning, Tesla announced that they have bought 1.5 billion dollars worth of bitcoin and their car buyers would

be able to start using bitcoin as payment. Elon Musk occasionally is correct in his decisions, so this is going to give it more credibility. Bitcoin is also divisible into smaller units. The smallest is called a Satoshi, after the alias of the unknown founder of bitcoin, which is 100 000 000th of one whole bitcoin. This divisibility is necessary for it to become a medium of exchange.

There is a limited amount of bitcoins that will be produced. The final amount will be 21 million with over 18.6 currently in circulation today. This feature is one of the most important to the digital currencies proponents and it resonates with me. It is too easy for countries to print money, making the money previously in circulation less valuable. With no central authority with a motivation to create more bitcoins this devaluing of bitcoin should be impossible.

The anonymity of bitcoin can be an important characteristic for many of its users. One theory for the recent runup in bitcoins value is that since so many sources of money laundering have been shuttered due to the pandemic, such as casinos, restaurants etc, that bitcoin is offering an alternative to the bad guys.

This limited supply is also the argument of using bitcoin over gold since more gold is being mined every year thereby making already mined gold less valuable. This point is not persuasive because the amount of gold being mined each year is miniscule to the amount already above ground.

Neither gold or bitcoin are backed by sovereign governments. This means their store of value is dependent on all of us agreeing that they will be accepted as currency. Gold and silver have been used as a store of value for thousands of years. This uninterrupted acceptance is a big reason that I personally believe gold is still a better hedge against inflation, devaluation and black swan events than bitcoin. Bitcoin is the new, shiny satoshi on the block. Though it is beginning to fulfill the requirements of what a currency is, what if something even better appears?

For now, my paper currency alternative is gold. If anyone has arguments pro or con for the above, I would be happy to hear them. I am still thinking this all through so any facts I have missed would be welcome.