

# Gold v. Bitcoin: The Future of the Economy

How the history of the economy in the last 50 years has led to the rise of cryptocurrency, and the crossroads the global economy finds itself in.

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In 1971, President Richard Nixon enacted a series of legislation known as the “Nixon shock” that revoked the U.S. dollar’s (USD) convertibility to gold. This made the USD the primary currency of international trade and the only currency that could be used to trade oil.

Now, for the first time since the Nixon shock, banks are once again beginning to consider gold a “tier I asset”, meaning gold is once again the most valuable trade commodity. Central banks have been stockpiling gold since 1971, and are now beginning to transition back to the gold standard.

This is in response to the downfall of the USD since 1971, but how does cryptocurrency come into play?

As the global economy approaches a crossroads, cryptocurrency has an opportunity to step in and become the centerpiece of the global economy. Cryptocurrency, for the first time since the economy became global, offers a decentralized approach where currency and trade exists without banks.

## **Gold: Bretton Woods to the Nixon shock to the Basel Accords**

In 1971, President Nixon wanted to address a stuttering American economy facing inflation, unemployment, and national debt.

Both the Nixon administration and foreign countries began to realize the United States would not be able to uphold the principles of the Bretton Woods system.

In 1944, the Bretton Woods system established the exchange rates of foreign currencies to the USD, and the USD to gold. Bretton Woods allowed the USD to become interchangeable with gold, shifting the global economy from a “gold standard” to a “[gold exchange standard](#),” according to [Lewis Lehrman](#).

The Nixon administration realized they risked losing all of the gold in the Treasury because between Bretton Woods and the Nixon shock, the United States government had been operating in deficit, meaning there were more USD abroad than there was gold in the government’s reserves.

President Nixon and Secretary of the Treasury John Connally decided to transition the USD to a “freely floating fiat currency.”

A floating currency is one that’s value is allowed to fluctuate in response to the foreign exchange market. Most of the world’s most powerful currencies today are floating currencies, but floating currencies are susceptible to influence and manipulation from centralized banks.

A fiat currency is a currency that is not backed by any commodity, and has value simply because a government says so.

On August 15th, 1971, President Nixon and Secretary Connally decided to “close the gold window,” meaning they revoked the convertibility of the USD into gold. All the USD foreign countries had accumulated, thinking they were essentially certificates for gold, were no longer

valid means of exchange for gold to the United States government. This *de facto* abolished the Bretton Woods system.

By transitioning the USD to a floating fiat currency, President Nixon and Secretary Connally essentially refused to pay the debt the United States government had accumulated. In a phone call with President Nixon, Secretary Connally was quoted saying, “To hell with them. I’m not worried about them, I’m worried about us.”



This decision tanked the value of the USD and permanently discredited the American economy. The American economy immediately entered a recession, and it has never really fully recovered to the golden age of the American economy in the mid-20th century, before the Nixon shock.

However, the USD was able to remain the centerpiece of the global economy for about 50 years because of the United States’ monopoly on oil. Through years of negotiations and diplomacy, as well as war and force, the United States has gained vast amounts of control over oil in the Middle East.

Oil has been what's propping up the USD, and in turn the entire American economy, over the past 50 years. Over time, however, the United States' grip over oil has weakened.

War and instability has weakened American control over oil in the Middle East. War is bad for business, and there are plenty of regimes that have come and gone in the Middle East over the past 50 years that resent American involvement in the region and refuse to trade with the United States.

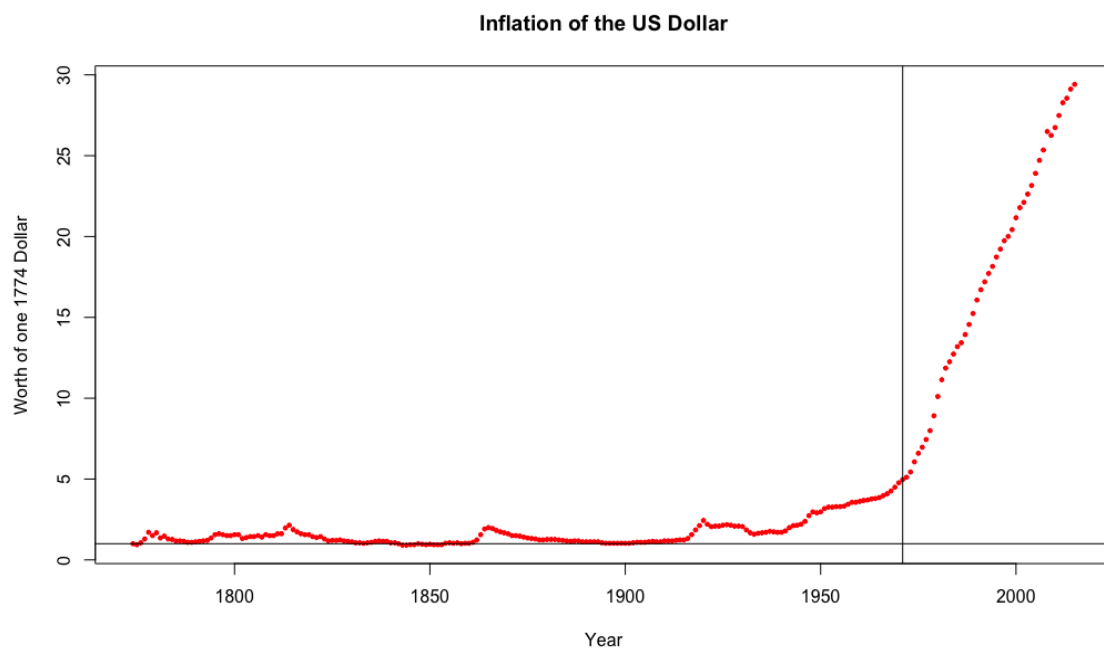
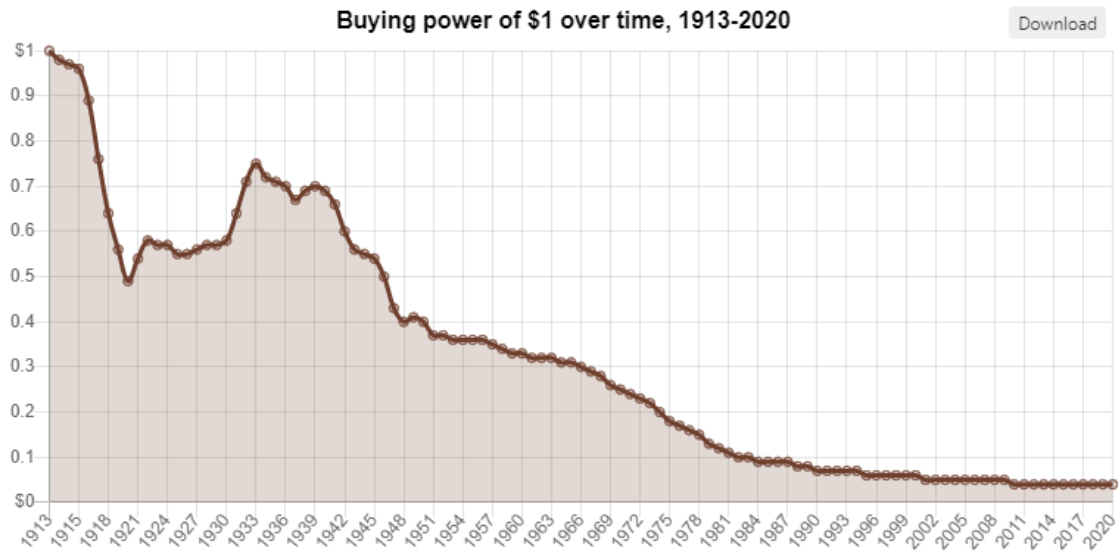
Furthermore, global trade partners have become fed up with having to trade with the USD. Leith Harmon is the Chief Financial Planner for Counsel Fiduciary, a registered investment advisor firm in New York. When asked about why the USD is weakening, Harmon said, "The global economy is beginning to stand up to the USD and demand gold while seeking to bypass the USD. If anyone wants to buy oil from Saudi Arabia, they first have to buy USDs from the United States. Nobody wants to do that anymore."

So everybody decided to not do that anymore. The central banks of thirteen countries (the United States, Japan, and eleven European countries) formed the Basel Committee in 1974. The Basel Committee published the first series of the Basel Accords (Basel I) in 1988, and they were implemented in 1992.

The Basel Committee published Basel II in 2004, Basel III in 2010, and Basel IV in 2017.

Across these three publications of the Basel Accords, the Basel Committee agreed to consider gold a tier I asset, according to [Andrew Naylor of the World Gold Council](#).

The Basel Accords have significantly increased the value of gold, while decreasing the value of the USD. In 2011, the USD was worth only 18% of what it was in 1971, and over the last 100 years, the purchasing power of the USD has decreased 97%, according to Harmon.



65% of all USD ever printed have been printed since the beginning of the pandemic, according to Harmon.

This has allowed the global economy to bypass the USD and begin transitioning to the gold standard once again. This transition is scheduled to begin implementation in 2023.

## **Cryptocurrency: The rise of Bitcoin**

As Basel III was being drafted in response to the mortgage crisis of 2008, Shatoshi Nakamoto (true identity unknown) created the cryptocurrency known as Bitcoin for the same reason.

Cryptocurrency is a type of ultra-secure digital currency. Bitcoin has become the figurehead of cryptocurrency because it is decentralized, meaning there is no central bank that can manipulate or influence it. Bitcoin is controlled by algorithms, not people.

This means users can (theoretically) freely transact Bitcoin between each other without intermediaries.

Bitcoin accumulated value in the first place through a process known as mining. According to Harmon, “Miners are rewarded with Bitcoin for recording other Bitcoin transactions.” These transactions are recorded in what is known as the blockchain. Harmon said, “The miners all compete to do this mathematical puzzle that confirms the transaction.” These calculations, known as cryptography, verify a group of transactions.

Bitcoin offers a currency that is immune to inflation. The algorithm established for Bitcoin dictates that no more than 21 million Bitcoin can exist. Right now, there are approximately 19 million Bitcoin in existence, meaning that they have already been mined. This hard cap makes Bitcoin inflation-proof.

Lucas Watkins, a senior at UCSB, has traded cryptocurrency for three years now. “My first purchase was \$50 worth of Bitcoin in 2019.” The value of Bitcoin has nearly quadrupled since then. Watkins is one of the many students at UCSB, and millions of individuals across the world, trading cryptocurrency.

The value of one Bitcoin is determined by the total value invested in the entirety of Bitcoin, divided by the total amount of Bitcoin in existence. As of March 15, 2022, the value of one Bitcoin is \$39,282.70.



A [study](#) published in *Physics Report* has shown that Bitcoin and other cryptocurrencies are [developing economies of their own](#), and [millions of people are joining the open cryptomarket](#), [with some experiencing life-changing highs and lows](#).

### **The future of the economy: gold v. cryptocurrency**

As the central banks running the centralized global economy prepare to transition to the gold standard, millions of people are discovering a decentralized alternative: cryptocurrency, namely Bitcoin.

So as the USD bows out as the centerpiece of the global economy, what will take its place: the gold standard, or cryptocurrency?

Harmon stated, “With each passing day, as Bitcoin becomes more useful, or as its use becomes more clear, we really have two possible systems presenting themselves. We are having a transition away from the [USD] because it’s too inflated. What comes next? There’s the group of

people, the systems, that want to institute central banks and the gold standard. This would have people deciding how the financial system works. Fundamentally, it is centralized, top-down, authoritarian [and] gold-based. Then there's the decentralized option, and that is cryptocurrency, particularly Bitcoin.”

“We could conceivably have a decentralized financial system on this planet,” says Harmon.

Proponents of the centralized gold standard will argue that a global economy based on cryptocurrency will increase disparity between the first-world and the third-world. But the third-world might actually be better equipped to transition to a crypto-economy than the first world is, argued Harmon.

Harmon argues that the developing world will adopt cryptocurrency before the Western world because those in power in the Western world will not allow cryptocurrency to rise, whereas the developing world will skip over centralized banks and adopt cryptocurrency. Additionally, there is more of an urgency to develop a better financial system in the developing world rather than the Western world. The opportunity for cryptocurrency is greater in the developing world.

For example, migrant laborers from El Salvador are able to send money back to their families through Bitcoin, because El Salvador considers Bitcoin to be legal tender. Salvadorans are then able to avoid centralized banks' transaction fees.

German Rodriguez, a third-year economics major at UCSB, mentioned another example of cryptocurrency in the developing world in an interview. “Ethiopia is trying to migrate their entire public education system onto Cardano's blockchain.”



Cardano is a cryptocurrency that operates using smart contracts. Smart contracts can validate currency transactions the same way Bitcoin's blockchain can, but also "implement infrastructure," according to Rodriguez.

Rodriguez would go on to describe how smart contracts could upload medical records at a hospital, for example. These records would be uploaded into a secure and decentralized database. The value generated in doing so gives Cardano its value.

For the first time in human history, the entire global population could trade in one universal currency, immune to inflation, corruption, influence, and manipulation. The entire global population could trade among themselves without intermediaries.

But this would require those in power, the centralized banks that have invested in gold en masse, to relinquish their control over the global economy. [That won't happen so simply.](#)

While President Nixon and Secretary Connally attempted to defeat the gold standard with the USD and failed, they inadvertently allowed for the rise of cryptocurrency, which might be destined to defeat the gold standard in the future.

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