

Gold as Unit-of-Account

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Gold is money. Everything else is credit. – J. P. Morgan, 1912



What's the single most important financial knowledge that seems to have been lost today? After having studied the great economists of all times, we'd say it's the fact that money has to have a value in itself to serve us well.

Now, let's make it clear from the start that you don't necessarily have to use such kind of money in exchange. A means-of-exchange could be anything from shells to cigarettes or even modern-day monopolist fiat paper money or bitcoins. They can certainly be lousy as unit-of-account, yet often highly suitable as means-of-exchange.

No, the critical thing is that you use such kind of money as a unit-of-account. Of all the available options, one particular thing stands out as the best possible unit-of-account. It has been valued by people throughout the ages and all over the World. It's far from perfect but compared to the competition, it's the only shining star.

Yes, it's gold. But we must repeat, you need only think of gold as a unit-of-account and not necessarily as a means-of-exchange. This came natural to everyone back in the days when all money was hard money. Everyone did this but we reckon most people didn't think too much about it. Unlike a tycoon such as J.P. Morgan, most people never owned any gold at all. Neither do you have to own any gold, but can still benefit from its value.

One nice thing about this is that you can start benefitting from gold already today. As mentioned, you don't have to start by buying gold, you just have to start using gold as a unit-of-account. And it's completely free to do so.

How exactly does this provide value to you?

First of all, the value to the international investor is perhaps most obvious. You can track the development of an international portfolio in a single unit-of-account, irrespective of any national fiat currencies. You can at least add this extra perspective. You can avoid the swift and often large swings of the volatile fiat currencies involved.

Secondly, the value to the domestic investor is more subtle but perhaps more important. It helps you to avoid the continuous inflation and sometimes sharp deflation inherent in fiat currencies. Since the times when currencies were monopolized around in the early 1900's, all fiat currencies has either vanished or lost more than 95% in value. This is terrible inflation. Even a creeping 2% per annum translates into an inflation rate of 64% in a generation (25 years) or 442% in a

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lifetime (75 years). But the track record is much worse, and the statistics is manipulated in most countries, including all Western countries, in order to hide this fact.

But there are further important benefits. At the center of all advanced society and commerce is decent accounting. It's very hard to perform decent accounting using a poor unit-of-account. High inflation will overstate real earnings, overstate tax bills and lead to malinvestments. If you want a decent society and commerce you simply need a decent unit-of-account.

Moreover, working with a much better unit-of-account will also enhance your risk control. We wouldn't say the short term volatility will be less, at least not significantly less. But we would definitely say that the risk of serious long-term losses will be significantly smaller. This is because you will avoid the creeping inflation, inflation that will boost the prices of your investments as well, like for example your shares. Gold as a unit-of-account helps you avoid this kind of index inflation.

Finally, we also believe you will stand a better chance at actually spotting the major market turns once you aren't blinded by the poor unit-of-accounts you are used to rely on. Do you know at what levels the Dow Jones bottomed out in the last major downturn? When was this? How close are we to that level now? If you have no clue, this should make you think.