

Reinventing the Gold Standard - Precious Metals Vs Fiat Currency

It isn't the intent of this article to recount the history of the gold standard (you can read our piece on that subject in our previous blogs), nor to argue the relative merits of having a currency that's backed by gold - that's a topic for another piece.

Instead, we'll outline what we mean when we say that USDVault is re-inventing the gold standard. We'll also give just enough historical context to lay the foundation and jump into the specifics of how, in practice, we put that into place with our USDVault token.

The Gold Standard: A Brief History

Gold is one of the oldest forms of currency and stores of value, which has been used as a medium of exchange in many civilizations. In the early 19th century, many Western countries began to adopt the gold standard, until it was abandoned completely in the 1950s and 60s.

Nowadays, the US dollar makes up more than 60% of central bank foreign exchange reserves, large institutions and central banks. Individuals all over the world measure their gains and losses against the US dollar.

Back to the Future - Old-School Value with New-School Technology

While the return of the gold standard into fiat currency seems unlikely and impractical, there were benefits in the form of financial stability and redeemability that now seem relevant in the emerging asset class of cryptocurrency. Over the years, the price of Bitcoin (BTC) and Ethereum (ETH) has been subject to frequent spikes, crashes and coin forks. Furthermore, we are once again seeing markets with untrustworthy agents and counterparties, a lack of faith in a number of emerging currencies, from both sceptics and enthusiasts.

We are also seeing a rallying call for currencies to emerge that people can rely on to actually be worth something. At the same time, it is obvious that the technology associated with these coins has achieved tremendous advantages over traditional asset classes.

The introduction of smart contracts, crypto assets and blockchain technology can help to automate and streamline much of the contractual agreements and transactions that occur in the business environment. In traditional business dealings, brokers, agents, and legal

representatives can add significant complications and expense to what would otherwise be a straightforward transaction.

Bureaucracy, special conditions, and over-complicated processes create significant additional expenses, delays, and the opportunity costs are tremendous. Blockchain promises to revolutionize these processes, and the advantages here cannot be downplayed. So, therein lies the burning question: how do we create reliable, dependable, valuable assets on the blockchain that deliver upon the promise of the technology behind crypto? Indeed, how do we do all of this while leveraging the lessons learned over millennia about what it takes to maintain a stable store of value in the long term?

The Three Use Cases of Money and a New Gold Standard

For those of you who read our “Modern Money for Modern Markets” series, you’re already familiar with the three major use cases of money - store of value, unit of account, and medium of exchange.

It is our contention that, to create next-level money for a new digital economy, we must draw the distinction between multiple use cases and take the best lesson from each domain to reach our end product - a re-invention of the gold standard on the blockchain. While cryptocurrencies have provided a massive leap forward in terms of facilitating faster, more transparent transactions (read: medium of exchange), they’re not yet strong in either of the other two use cases - store of value or unit of account.

Likewise, we can trumpet loudly the benefits of gold as a historic store of value, one that has outperformed anything else in history in terms of preserving a stable value over millennia. However, not even the most ardent gold bug is advocating that we return to a time when precious metals were the dominant legal tender and your grandmother is sending you birthday cards stuffed with silver coins instead of a check or a crisp hundred dollar bill.

And, to a final point - it’s still a fringe position to treat either gold or a dominant cryptocurrency as the yardstick by which you measure the value of your real-world assets, and it’s our contention that this will likely be the case for a long time to come.

Therein, the path forward is simply this - use blockchain technology to facilitate transactions that are backed by gold, and measure them with dominant fiat currencies. Start with the dollar, since that’s the most globally recognized, then introduce other regional fiats as demand in the market grows.

This is the logic behind USDVault - the world’s first 1:1 USD pegged, LBMA gold-backed and gold-or-fiat redeemable stablecoin.

Designed as a standard ERC20 compliant token and operating with institutional-level partnerships with some of the most trusted players in the gold and cryptocurrency industry, USDVault is ideally positioned to create the new gold standard in stablecoins.