**Gold as Deflation Fighter? Its Past, Present, and Future**

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**Abstract**

Current super-low interest rates and massive money supply in US and Europe may cause inflation in the future. Historically, gold has been used as a hedge against inflation. During the run up to its peak price in 1980, gold was chasing the inflation rate as investors feared that their purchasing power was going to be destroyed by runaway prices. What they didn’t realize was that the inflation rate had already peaked above 13% at least a year prior to gold and it continued to fall until 1986 where it has remained in a corridor between 0% and 6% ever since.

**Gold Investment**

Gold is also a reflection of the overall faith (or lack thereof) in the economic and political system. Issues such as the European debt crisis, the Gulf oil spill, persistent joblessness, a housing crash hangover, etc. have created a sense that the problems we face are too big and might lead to widespread economic collapse. Currencies will tumble in value in a collapse scenario, so the hedge with gold is that you will have protected your ability to trade for goods and services through the relative stability of its value. That, in effect, is the bet that is being made by those who are pushing gold up into stratospheric territory. The gold bet in 1980 didn’t break even for another twenty five years (even longer when adjusted for inflation), it will be interesting to see how well today’s gold bet plays out.

Gold prices have soared nearly every year during a period of stagnant economic growth in the USA that has generally been characterized by low inflation (the low inflation is easily confirmed by dozens of other independent variables including wages, bond yields, ISM price index data, ECI Future Inflation Gauge, etc).

**Gold & Inflation in China**

China’s economy has roared to life over the last 10 years. Their government has increased the money supply at a 17% annualized rate as they try to sustain growth. Their inflation concerns are well documented.

Figure shows the correlation between China’s CPI and gold prices over this period. As you can see, it tells a dramatically different story than the US CPI data does.

**Gold & Inflation in USA**

**CONCLUSION**

From the above 3 figures, 
1. Gold is NOT a good Long-term Investment. 
2. 2. But change in Gold price is highly correlated with the change in Inflation. 
3. The higher the inflation changes the higher the Gold price.

The US government and “central planning” or “money printing” as the primary cause of the surge in the price of gold and justification of their USA hyperinflation theory, “money printing”...