

Doug Casey on Why Gold Is Money

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By Doug Casey, founder, Casey Research

It's an unfortunate historical anomaly that people think about the paper in their wallets as money. The dollar is, technically, a currency. A currency is a government substitute for money. But gold is *money*.

Now, why do I say that?

Historically, many things have been used as money. Cattle have been used as money in many societies, including Roman society. That's where we get the word "pecuniary" from: the Latin word for a single head of cattle is *pecus*. Salt has been used as money, also in ancient Rome, and that's where the word "salary" comes from; the Latin for salt is *sal* (or *salis*). The North American Indians used seashells. Cigarettes were used during WWII. So, money is simply a medium of exchange and a store of value.

By that definition, almost anything could be used as money, but obviously, some things work better than others; it's hard to exchange things people don't want, and some things don't store value well. Over thousands of years, the precious metals have emerged as the best form of money. Gold and silver both, though primarily gold.

There's nothing magical about gold. It's just uniquely well-suited among the 92 naturally occurring elements for use as money... in the same way aluminum is good for airplanes or uranium is good for nuclear power.

There are very good reasons for this, and they are not new reasons. **Aristotle defined five reasons** why gold is money in the 4th century BCE (which may only have been the first time it was put down on paper). Those five reasons are as valid today as they were then.

When I give a speech, I often offer a prize to the audience member who can tell me the five classical reasons gold is the best money. Quickly now – what are they? Can't recall them? Read on, and this time, burn them into your memory.

Money

If you can't define a word precisely, clearly and quickly, that's proof you don't understand what you're talking about as well as you might. The proper **definition of money is as something that functions as a store of value and a medium of exchange.**

Government fiat currencies can, and currently do, function as money. But they are far from ideal. What, then, are the characteristics of a good money? Aristotle listed them in the 4th century BCE. A good money must be all of the following:

- **Durable:** A good money shouldn't fall apart in your pocket nor evaporate when you aren't looking. It should be indestructible. This is why we don't use fruit for money. It can rot, be eaten by insects, and so on. It doesn't last.
- **Divisible:** A good money needs to be convertible into larger and smaller pieces without losing its value, to fit a transaction of any size. This is why we don't use things like porcelain for money – half a Ming vase isn't worth much.
- **Consistent:** A good money is something that always looks the same, so that it's *easy to recognize*, each piece identical to the next. This is why we don't use things like oil paintings for money; each painting, even by the same artist, of the same size and composed of the same materials is unique. It's also why we don't use real estate as money. One piece is always different from another piece.
- **Convenient:** A good money packs a lot of value into a small package and is highly **portable**. This is why we don't use water for money, as essential as it is – just imagine how much you'd have to deliver to pay for a new house, not to mention all the problems you'd have with the escrow. It's also why we don't use other metals like lead, or even copper. The coins would have to be too huge to handle easily to be of sufficient value.
- **Intrinsically valuable:** A good money is something many people want or can use. This is critical to money functioning as a means of exchange; even if I'm not a jeweler, I know that someone, somewhere wants gold and will take it in exchange for something else of value to me. This is why we don't – or shouldn't – use things like scraps of paper for money, no matter how impressive the inscriptions upon them might be.

Actually, there's a sixth reason Aristotle should have mentioned, but it wasn't relevant in his age, because nobody would have thought of it... **It can't be created out of thin air.** [JTC: e.g., it's *scarce, limited.*]

Not even the kings and emperors who clipped and diluted coins would have dared imagine that they could get away with trying to use something essentially worthless as money.

These are the reasons why gold is the best money. It's not a gold bug religion, nor a barbaric superstition. It's simply common sense. Gold is particularly good for use as money, just as aluminum is particularly good for making aircraft, steel is good for the structures of buildings, uranium is good for fueling nuclear power plants, and paper is good for making books. Not money. If you try to make airplanes out of lead, or money out of paper, you're in for a crash.

That gold is money is simply the result of the market process, seeking optimum means of storing value and making exchanges.

Addendum by Jonathan Carriel:

Gold vs. Nuggets as exchange mechanisms

- **Durable:** If Nuggets are accepted as gold, they are durable.
- **Divisible:** *More* divisible than any artifact made of gold.
- **Consistent, recognizable:** Viewing and recording deposits will help, but electrons are never going to be as instantly recognizable as coins.
- **Convenient:** Depending on circumstance, Nuggets are less or more convenient. Less convenient if face-to-face with trader needing virtually the exact amount of coin in hand. More convenient in all other situations. However, internet-required and learning curve involved.
- **Intrinsically valuable:** If understood that vaulted gold exactly backs each unit.
- **Scarce:** If understood that vaulted gold exactly backs each unit.