

Gold Is Money

By [Washington's Blog](#)

Theme: [Global Economy](#)

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What Do the Experts Say?

Deutsche Bank analysts Daniel Brebner and Xiao Fu have just released a new report saying that gold is money (via [Business Insider](#)):

While it is included in the commodities basket it is in fact a medium of exchange and one that is officially recognised (if not publically used as such). We see gold as an officially recognised form of money for one primary reason: it is widely held by most of the world's larger central banks as a component of reserves.

We would go further however, and argue that gold could be characterised as 'good' money as opposed to 'bad' money which would be represented by many of today's fiat currencies. In describing gold as such we refer to Gresham's Law – when a government overvalues one type of money and undervalues another, the undervalued money (good) will leave the country or disappear from circulation into hoards, while the overvalued money (bad) will flood into circulation.

In our view the ideal medium of exchange must balance the paradox of representing value while having little intrinsic value itself. There are very few media which can do this. Fiat currencies physically have no use other than that which is prescribed to them by government and accepted by the public. That fiat currencies cost little to produce is of a secondary concern and we believe, quite irrelevant to the primary purpose.

Gold is neither production good nor consumption good. Jewellery we see as a form of storage or hoarding (the people of Portugal have all but exhausted their personal gold stores – hoarded in the form of jewellery – having converted them to survive the crisis). If gold did have a meaningful commercial use we believe that it would make the metal less attractive as a medium of exchange as the value of the metal in whatever market it was used in could periodically interfere with its medium-of-exchange role...

Other characteristics are important of course in fulfilling the requirements for 'good' money: indestructibility, divisibility, transportability and universal acceptability.

They are not alone ...

World Bank president Robert Zoellick [pointed out](#) in 2010:

Although textbooks may view gold as the old money, markets are using gold as an alternative monetary asset today.

Former Fed chairman Alan Greenspan [said](#) in 2009:

Gold prices that jumped above \$1,000 an ounce this week are signaling that investors are buying metals to hedge against declines in currencies, former Federal Reserve Chairman Alan Greenspan said.

The gains are “strictly a monetary phenomenon,” Greenspan said today at an investment conference in New York. Rising prices of precious metals and other commodities are “an indication of a very early stage of an endeavor to move away from paper currencies,” he said...

“What is fascinating is the extent to which gold still holds reign over the financial system as the ultimate source of payment,” Greenspan said.

And we [noted](#) in 2010:

Alan Greenspan [told](#) the Council of Foreign Relations last week:

Fiat money has no place to go but gold.

Greenspan also said that supply and demand explanations treating gold like other commodities “simply don’t pan out.”

Greenspan also spoke of how, during World War II, the Allies going into North Africa found gold was insisted on in the payment of bribes, and said:

If all currencies are moving up or down together, the question is: relative to what? Gold is the canary in the coal mine. It signals problems with respect to currency markets. Central banks should pay attention to it.

Former chief Merrill Lynch economist David Rosenberg [wrote](#) in March:

The best currency may be physical gold...

Phoenix Capital Research [argues](#) that central banks are themselves loading up on gold because they know that the entire fiat money scam will soon collapse.

[Indeed](#), it is [fiat currency – and not gold – which is in a bubble](#).

As Bond king Bill Gross [said](#) recently:

Gold can’t be reproduced. It could certainly be taken out of the ground in an increasing rate but there’s a limiting amount of gold.

And there has been an unlimited amount of paper money over the past 20 to 30 years and now – in this period of central bank expansion where it’s QE1 or

QE2, or whether it's the LTROs of the ECB or this potential new program ... then central banks are at their leisure to basically print money.

Gold is a fixed commodity that has a considerable store of value that paper money has not....

When a central bank starts writing checks and printing money in the trillions of dollars, it's best to have something tangible that can't be reproduced, such as gold.

Forget Theory ... Are People Actually Accepting Gold as Money?

But forget all the theory. Are people actually accepting gold as money?

Utah has declared [gold coins to be money](#).

CNN [reported](#) in February:

A growing number of states are seeking shiny new currencies made of silver and gold.

Worried that the Federal Reserve and the U.S. dollar are on the brink of collapse, lawmakers from 13 states, including Minnesota, Tennessee, Iowa, South Carolina and Georgia, are seeking approval from their state governments to either issue their own alternative currency or explore it as an option.

Unlike individual communities, which are allowed to create their own currency — as long as it is easily distinguishable from U.S. dollars — the Constitution bans states from printing their own paper money or issuing their own currency. But it allows the states to make “gold and silver Coin a Tender in Payment of Debts.”

Financial Times [reported](#) in 2010:

Intercontinental Exchange, the US futures exchange group, has [followed rival CME Group](#) by allowing its European clearing house to accept gold bullion as collateral for transactions.

[JP Morgan](#) accepts gold bullion as collateral.

So does [Donald Trump](#).

China is [paying for oil with gold](#). India is [probably doing so](#) as well.

And central banks are considering allowing banks to hold gold as a [risk-free, tier 1 asset](#).

Caveats: Be careful with [unallocated accounts, accounts held by big banks, paper forms](#) of gold and tungsten (see [this](#), [this](#), [this](#) and [this](#)).

Finally, note that FDR was not the only leader to confiscate gold. In the Yuan dynasty six centuries earlier – in an attempt to prop up its fiat currency and prevent runaway inflation –

the Chinese government [attempted to prohibit all transactions in or possession of silver or gold, which had to be turned over to the government](#). China has outlawed possession of silver several times since, and has just lifted the most recent ban.

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