

Bitcoin or Gold?

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We have proposed a system for electronic transactions without relying on trust. – Satoshi Nakamoto, 2009¹

With this fairly mundane comment, the person or persons known as Satoshi Nakamoto (the jury is still be out) introduced bitcoin to the world. Since then, bitcoin has attracted widespread attention and interest – as well as numerous critics. Ironically, some of its most vocal detractors, such as Austrian economist Frank Shostak and financial commentator Peter Schiff, are champions of gold. As fiat currencies (money which exists solely due to the force of law, i.e., by fiat) further decline in value, will investors increasingly embrace a cryptocurrency such as bitcoin, or will they revert to the historically tried-and-true precious metals? Will it be bitcoin or gold?

As the values of bitcoin and gold are primarily contingent on their future acceptance as money, answering the question “bitcoin or gold” requires an examination of a more basic inquiry: what is money? Money is a medium of exchange and, as such, presupposes the ability to act as a store of value. Over two thousand years ago, Aristotle noted the primary qualities exhibited by money:

- Portability
- Durability
- Homogeneity, and
- Divisibility.

Money should also, at least before becoming accepted as money, possess “alternative value.” This term is unfortunately

sometimes referred to as “intrinsic” value (as nothing possesses value without demand, nothing is intrinsically valuable).² Gold, (and to a lesser extent silver) possesses these qualities and was therefore used as money until quite recently (1971). Bitcoin critics who are proponents of gold cite its lack of alternative value as a fatal flaw.

But is it? True, unlike gold or silver, bitcoin cannot be used for a non-monetary purpose. Perhaps this is not a weakness, but rather a strength. As bitcoin lacks physical form, it lacks alternative value, but herein lies its unique attribute relative to gold – there is nothing to physically transmit. In the characteristic of portability, it easily exceeds gold’s virtues.

Does this mean that bitcoin is no different than any fiat money which can be transferred with a computer keystroke? No, as its usage derives from general acceptance, not mandate.

And unlike the experience of all fiat currencies throughout time, bitcoin is limited in quantity (it is designed so only 21 million bitcoins can ever be “mined” into existence). Nakamoto remarked that in creating bitcoin he had removed trust. But more accurately, he removed faith and fortified trust, for just as gold and silver use nature (their elemental physical characteristics) as an objective standard, so bitcoin utilizes math (cryptography).

The question of what ultimately may be the future of money may be “bitcoin or gold?”, but perhaps the answer should be bitcoin *and* gold. For millennia, gold and silver coexisted as money, so why not bitcoin as well? Bitcoin is so unique in the history of money, and so complementary to gold, that one day in the future, it – or some other cryptocurrency (assuming they survive government regulation and financial repression) – may become more than today’s speculative investment.

Endnotes:

1 Nakamoto, Satoshi. *Bitcoin: A Peer-to-Peer Electronic Cash System*. 24 May 2009 <<http://bitcoin.org/bitcoin.pdf>>.

2 For a real life example of the importance of “alternative value” as a quality of money, see “Only Criminals Use Honest Money” by Christopher Casey as published by the Mises Institute. <<https://mises.org/library/only-criminals-use-honest-money>>.

About the Author: Christopher P. Casey is a Managing Director with WindRock Wealth Management. Mr. Casey advises clients on their investment portfolios in today’s world of significant economic and financial intervention. He can be reached at 312-650- 9602 or chris.casey@windrockwealth.com.

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