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Goldmoney Insights®

Gold's Natural Monetary Properties

Everything we can touch, feel, breathe or burn is an element or compound. Everything built, manufactured, or invented relies on an inexorable causal relationship commencing with the extraction, transportation, storage, and distribution of elements.

Over the course of 6,000 years, scientists have classified 92 unique natural elements on our planet. These elements have different physical properties and relative rarity in the earth.

Extracting elements requires an input of energy, labour, time, and information (input units).

The relative abundance of the 92 natural elements to each other in the earth is immutable and enforces a relational cost ratio that is perpetual. Here the term cost ratio is not meant to signify dollars, euros, or other external measurements to the extraction process but rather input units (energy, labour, time, and information).

> *Gold's natural properties made it the perfect intermediate commodity (money) given that any good or service in the real-economy is comprised of variable combinations of input units.*

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Gold is the rarest of mined elements on any meaningful scale. Gold has another equally important feature: immortality. It doesn't tarnish, rot, evaporate, or decay. It doesn't have a lifecycle and for reasons unbeknownst to us, resists entropy, one of the most important natural laws which dictates that everything made up of energy will trend towards disorder over time.

Of the 92 natural elements, there is only one which could have evolved as an intermediate commodity (money) representing any cooperative transaction between participants in a free market.

The critical point being that any transaction in the real economy (no matter what industry or geography) ultimately represents various combinations of input units as a cost: energy, labour, time, and information.

Try to think of any good or service in the real-economy. No matter how complex a service or how simple the good, you will find this axiom to be true.

Gold's rarity means its extraction absorbs more input units than any other element or compound. Gold's immortality means it lasts while everything else including the input units diminish over time. Therefore, gold is always time superior to input units in any transaction within the real-economy.

> *Bringing it all together, the total gold stock represents billions of past transactions which enforces a proportional future value in equivalent input unit.*

Because gold lasts forever, all the gold ever extracted grows in size over time as an increasing physical inventory (stock) owned by hundreds of millions of people either in jewelry or bullion form. Conversely, input units diminish and have no equivalent stock or inventory to draw upon. They must always be reproduced, reconfigured, or redeveloped in the future.

This large gold stock has a cumulative running cost that grows with each additional unit of gold extracted from the earth. This cost is comprised of billions of historical transactions where various combinations of diminishing input units were exchanged for gold.

Of course this gold stock is not owned by one person. It is widely distributed amongst hundreds of millions of humans from every geography, culture, and with varying skills and natural endowments. Every weight of gold owned or adorned by someone can be traced to a past transaction where he or she decided to exchange their diminishing input units.

Each of them participate in a cooperative system that values their specialized skill, labour, time, and resources with diminishing input units. This enforces their ability to respond to the relationship between the value of their diminishing input units and gold. They can either convert their gold for diminishing input units or convert diminishing input units to gold.

This point is extremely important if one wishes to understand why the long-run price of gold even when using an external measurement will always reflect the natural relationship between the elements.

It follows then that in a free market, the future value of this total gold stock (the gold price) will be bid up or down in proportional units of energy, labour, time and information from participants in the real-economy.

Conclusion

In this piece, I have shown how gold evolved into money due to physics (natural law) and darwinian anthropology. Gold's ascension had nothing to do with economics or economists.

I have also shown how the the long-run price in relation to diminishing units must clear at an equilibrium. I believe this equilibrium to be as follows:

Gold Stock = Present Value of Historically Exchanged Input Units