Op-ed: Gold Versus Bitcoin: Quest for Supremacy

by Carlo Caraluzzo (@authors/carlo_caraluzzo) @ 2014-12-26 01:30 PM

There is a legitimate question of whether Bitcoin can replace gold as a more secure way to store value. Gold has traditionally been used for this purpose but if just a little bit of research is done it is easy to find out that the illusion of gold has been manufactured.

Mankind has been drawn by the luster of gold for millennia. Empires have been built on it, bloody wars fought over it and for a very long time the world’s economy was based on gold more than any other commodity. But the fact is that gold is valued based on one simple principle: supply. If the supply of gold in circulation goes down, the price climbs. When the market releases too much gold at one time, the price drops again.

The Illusion of Value
Gold is said to have “intrinsic” value. Gold is also said to be of high value because it is both rare and there is a finite supply. Investopedia defines (http://www.investopedia.com/terms/i/intrinsicvalue.asp) intrinsic value like this:

“The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors.”

The operative phrase in that definition is “underlying perception”: gold has more value because we say that gold has more value. The fact is that we need a medium of exchange and gold is both rare and flexible. You can store it in a vault, use it to make currency or wear it as jewelry.

But all of that can also be said of most metals. The fact that gold is “rare” is the one difference in this equation. The news over the last few years has talked extensively about the fact that gold mines are “drying up (http://trak.in/tags/business/2010/06/08/gold-reserves-state/)”. These rumors are often cited to explain the 400% rise in the price of gold over the last two decades.

The fact is that a scarcity of gold has little to do with the price of gold. Even if gold were becoming hard to find on Earth recent discoveries (https://twitter.com/marsrader/status/543540376465051648) on the asteroid Eros indicate that there is more gold on that one small space rock, 20,000 times more, than is produced on Earth in a single year.
The asteroid Eros contains up to 20 billion tons of gold ~ worth 20,000X everything produced on Earth each year.

If that asteroid was mined and the resulting ore subsequently dropped on the global market the price of gold would drop significantly. The United States Space Program is a shambles but the rest of the world, along with private interests, seems to be moving ahead at full steam.

Gold is not even close (http://www.gold-eagle.com/article/gold-why-did-price-rise-so-dramatically) to the sure bet that most investors think it is. Anyone who digs deeply enough into the history of gold price rises and falls will know that gold prices do not necessarily rise during times of inflation, a conclusion reached by Campbell Harvey (http://people.duke.edu/~charvey/), a professor at Duke University (http://www.forbes.com/colleges/duke-university/)’s Fuqua School of Business (http://www.forbes.com/business/).

We can come to the same conclusion simply be remembering that the current upward spiral began during the late 1990s when the American economy was booming. Harvey suggested (http://www.forbes.com/sites/danifisher/2013/08/08/gold-not-much-of-a-hedge-for-anything-unless-you-re-a-centurion/) that gold prices go up for one reason: gold prices are going up. In other words, potential investors see prices making a surge and jump on the bandwagon, which drives prices up further.

**Bitcoin as an Alternative**

While Bitcoin cannot solve all of the world’s financial problems, and is certainly not a bullet-proof investment, Bitcoin has many aspects that make it a much safer bet than gold, or any precious metal. While there are many of these aspects, two of them stick out from the crowd:
1. We know that despite common belief, gold is not finite in any real sense of the word. As mankind expands its search, especially into space, the supply of gold and other precious metals will continue to expand with us. This is not true with Bitcoin. The virtual currency actually has a point when no more Bitcoin will be produced, making it essentially inflation-proof.

2. The price of gold is largely determined by trading activity on centralized markets. When people begin buying gold a rush usually begins and the price begins to soar. But as we have seen during the last quarter this is not necessarily true with Bitcoin. The price of Bitcoin has plummeted while trading has risen along with consumer interest and merchant acceptance.

Professional investors, along with people seeking safe refuge should be very attracted to the first of the above reasons. Inflation is one of the primary drains on any long-term investment and gold is not inflation-proof. The second reason should be enough to convince anyone however because acceptance, consumer confidence (http://www.moneycrashers.com/leading-lagging-economic-indicators/), is one of the best indicators of a currency’s strength, with inflation being another strong indicator.

Conclusion

Decentralization of our economy in general, and Bitcoin specifically, are both still in their infancy. We have experienced both a Great Depression and several major recessions during the last 90 years and all of this can be traced directly back to the centralization of the system that began in the first half of the 20th Century. Albert Einstein said that the definition of insanity is doing the same thing repeatedly and expecting different results.

Bitcoin is not, and cannot be, a definitive solution. But when we are considering whether to invest in Bitcoin or invest in gold, Bitcoin has clear advantages over the metal, especially in times of questionable inflations and deflations of our personal buying power. Keeping this in mind smart investors should at least consider diversifying their portfolio by adding Bitcoin to their investments.

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15 Comments

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**cristian sorensen**  ·  2 days ago

The value of gold is like the value of everything, just what people think it is, if tomorrow people lose trust on gold it will have no value at all. Bitcoin as replacement? It’s too soon for that, it’s still too volatile for that.

1  ·  Reply  ·  Share

**findri astari**  ·  2 days ago

I think, bitcoin can not be an alternative for the investment, the price of the last few years showed a significant reduction, it does not include a shortage of bitcoin itself.

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**Andre**  ·  2 days ago

"the price of the last few years showed a significant reduction" -- Since 1 Jan 2013 the price of bitcoin has risen 2300%, since 1 Jan 2012 it has risen 4800%. Besides, you don't invest in bitcoin because (like gold) it doesn't give you any returns. You can speculate on future adoption, but that's a gamble.

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**Matthew Slater**  ·  2 days ago

This article is so economically illiterate I would not have published it. You can't talk about an alternative to gold unless you say which of gold's many functions you wish to replace. The price of gold is determined by supply, maybe cost of production, expectation of future demand, the price of the dollar, expectations about the price of the dollar, Wall street manipulation, consumer sentiment, demand for jewellery, demand for electronics and many other things. You can't just 'replace' that and who do you think gets to decide anyway?

Many functions of Bitcoin can be performed by other currencies on other blockchains -
bitcoin is completely replaceable and can definitely be improved upon. The value and usefulness of both gold and bitcoin depend on our consensus to use them that way. And WHY, why does the author want to convince us to replace gold with bitcoin? Did gold insult his mother?

Caraluzzo Carlo • Matthew Slater • 2 days ago
Had you bothered to read the article you would have seen, in the very first paragraph, that I talked about gold as a storage of value. And I never suggested that Bitcoin was a final solution. But gold will eventually replace precious metals as a storage of value. Finally, supply and demand is determined by the people who currently own and trade gold in large volumes. There are of course other factors but compared to that they really have no significance. I suspect, Just like Ray down below, you are a gold trader clinging to the last gasps of a dying industry. Virtual currencies such as Bitcoin are much safer than precious metals, simple as that.

Matthew Slater
> Bitcoin will eventually replace precious metals as a storage of value. This is a more meaningful assertion, although in a sense it is already true - I personally have might have more value stored in gold if I didn’t have so much tied up in Bitcoin. If you redraft the article with that as the title, dropping vague notions of 'supremacy', it might be more publishable. But no I'm not a metal-head trolling an ideological enemy bitcoiner. To me those factions are like tweedledum and tweedledee. You can find out more about http://cointelegraph.com/news/...
> that the illusion of gold has been manufactured - unjustified assertion
> the world’s economy was based on gold more than any other commodity - maybe but the economy depends much more in media of exchange than store of value.
> we need a medium of exchange and gold is both rare and flexible - gold is very rarely used as an exchange media. Promises of gold more often, but that is somewhat different.
> gold prices go up for one reason: gold prices are going up - suggesting that the gold price is 100% air isn't an argument
Anyway I have to go

RayJackson • 3 days ago
Haha, what a crock. Apparently, I'm supposed to dump all my gold because it's so abundant? Let me just jump in the nearest asteroid-mining spaceship and grab myself some, eh!
Michael Buick  •  3 days ago

I think bitcoin will win for one very simple reason; convenience. Humans will do anything in the name of convenience. Bitcoin is convenient gold is not. Say you want to send a million dollars in gold from London to New York. That's about 25kg of gold that's actually quite heavy. You need insurance. You need security. Already that's getting very expensive. Customs declarations and international restrictions on moving money across borders. Taxes and import duties. The risk that the plane crashes or the ship sinks or depending on the country (soon the US no doubt) the border control just confiscating it. Bitcoin? It takes seconds, totally secure, gets a confirmation in a few minutes and the total cost is about 3 pence.

At the end of the day if you can buy the same house or car with gold or with bitcoin, the deciding factor becomes what's the least hassle.

BitGold  •  3 days ago

Now consider the inverse, because all the "pros" you just stated for bitcoin over gold by definition make bitcoin inherently riskier. Gold being real, physical, and dense requires a real-world (offline) attack by a violent criminal which can be deflected by law enforcement. Bitcoin, for all the reasons you state, is inherently susceptible to cyber-intrusion, and cyber-attack, carried remotely and with zero recourse from law enforcement. For this reason, bitcoin is a perfect medium of exchange for short-term transactions but extremely risky for "hoarding" long-term wealth. That is why in my humble opinion, you will never see a day where at the margin global populations hold their long-term savings in bitcoin.

Caraluzzo Carlo  •  BitGold  •  3 days ago

BitGold, if someone steals your stash of Krugerrand from your safe, or if someone steals your smartphone, you have recourse to call the law. Not let me tell you the difference. Your safe is open able. Very easily so. But try to hack a hardware wallet. Much more difficult. And do you know what you cannot do with your gold? You cannot back it up on a thumb drive, lose it and simply get it back, transferring it securely to another wallet. When you untraceable gold is gone, it is gone. Lose your wallet though and, before it can be hacked, you simply transfer the funds to another wallet.

You are fighting a losing battle my friend.

Andre  •  BitGold  •  3 days ago

If you are storing a serious amount, say 1 million USD, you can also afford to take it seriously. I don't see why offline wallets would be less safe than bars of gold. Because the latter weighs 25 kg? If that would be true, you can make a private key in stainless steel (about 25 kg heavy) instead of paper.
And why would law enforcement take a theft of 1 million USD in bitcoin less seriously than a theft of 1 million USD in gold (or paintings, for that matter). Sure, it's not something they are used to yet. But I think they are required by law to take any big theft seriously, in proportion to its size.

BitGold → Andre • 2 days ago

Again you both clearly misunderstood the essence of "cyber-intrusion" as being an attack from a remote source in a jurisdiction that makes it difficult if not impossible to enforce. A local attack requires a criminal to carry out a crime where the jurisdictional law enforcement can respond and mitigate the attack.

Conversely, remote cyber-attackers residing in jurisdictions with less friendly governments can carry out an attack depleting real value instantly. You think hacking and cybercrime is bad now when all that's at stake are some emails and celebrity photos, wait until there is billions in bitcoins up for grabs for such hackers.

Physical gold bullion, stored in a vault, is "unhackable"

Andre → BitGold • 2 days ago

If you keep your bitcoin offline (paper wallet or hardware wallet), no "cyber intrusion" is possible. And as Caraluzzo Carlo said, with a stolen hardware wallet you also have the chance that you discover the theft (and move your bitcoin to safety) before the thief manages to obtain access to the wallet.

BitGold • 3 days ago

There are several troubling assumptions made by the author but what is unequivocally clear is that he has spent little to no time studying physics, geology, and even economics for that matter.

Let's start with physics. The crustal abundance of gold on earth confirms mathematically its scarcity vs. the other elements and compounds. That is where gold gets its opportunity cost and why that opportunity cost rises or falls over time with the cost of producing the other commodities we seek as humans to maintain our industrial society.

The opportunity cost is only part of the reason gold derives its intrinsic value. Of the 92 native elements in the universe, all but 8 will rot/tarnish/evaporate/rust. In other words, they have a shelf life or expiration date. Only 8 are able to transcend time and of those 8, gold is the rarest commodity.
Gold is thereby able to transcend time (it's permanent) while other elements are not. This in combination with gold's rarity (opportunity cost) make it the perfect "money" for short-term commodity transactions.

Now, let me spend some time on this asteroid nonsense. There is not one iota of scientific

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Caraluzzo Carlo 📞 BitGold • 3 days ago

Let me guess "BitGold". You are one of those gold traders who are trying to needle

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RECOMMENDED

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2014-12-26 06:55 PM

The Bitcoin South conference in beautiful Queenstown, New Zealand was a smashing success, but don’t just take our word for it. All you need to do is keep an eye on Jeffrey Tucker’s twitter feed By Tone Vays (/news/113196/andreas-antonopoulos-and-jeffrey-tucker-speak-at-bitcoin-south)

ANDREAS ANTONOPOULOS AND JEFFREY TUCKER SPEAK AT BITCOIN SOUTH