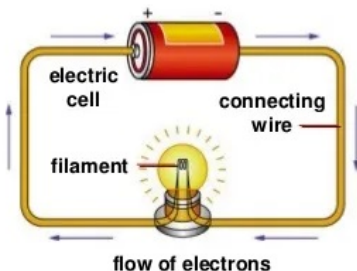


What is Money?

There are a lot of ambiguous terms when it comes to describing financial topics. Different words mean different things to different people. It is important to define and clarify these words if the goal is to have an effective discussion. After all, words are just an attempt to describe a concept that a human holds in their brain.

There can be many misconceptions when it comes to the world of money and wealth. What is wealth? Is it a Louis Vuitton purse, a Bentley sedan, a bank account with a large balance? It often depends on what point in history the snapshot is taken. The purse and the car have some level of usage but are mostly seen as a status symbol; the owner has an excess of resources. A closet full of purses or garage full of cars is largely not a way to build wealth. It is true that there is a secondary market for both (greatly enabled by the internet), but usually at a steep discount to the purchase price once the tag is removed or the car is driven off the lot. The latter example, the bank account, is a bit trickier to declare.

Currency is commonly thought of as the instrument that a sovereignty issues and declares legal tender. Specifically, this is what that government will accept as payment for collecting taxes. But that doesn't really explain what currency is, where it came from, or why it exists. Currency comes from the Latin word *currere* which is based on the root word *curr*, meaning "to run" or "to flow." Other examples of this same root word are cursive, cursor, and current. With cursive handwriting, the letters all flow together. The computer mouse has a cursor that runs all over the screen. An electrical current is the flow of electricity in an electronic circuit. So, currency just represents the flow of money, goods, and services. It provides units for the



measurement of value of one good, service etc., against another. Having a standardized and agreed upon unit of account makes an accounting system possible. Yet, in and of itself, money doesn't necessarily have any intrinsic value. Perhaps Jim Morrison of The Doors said it best "Money is a form



of communication" (11/6/1969). It is the quantified expression of individuals' wants and needs. Consumers are communicating that they like a product a lot and want more of it, if its price (in that standard unit of account) keeps going up. Conversely, consumers are communicating that they do not like a product, if its value keeps going down. Of course, the supply side of said good or service plays a large role, and in the short term there can be mispricing by either the product manufacturer, or the marketplace. But eventually, the marketplace will communicate the price it is willing to pay, and things will adjust accordingly.

In modern times, most of the world has become accustomed to using paper or digital legal tender issued by a government for its currency or money. However, this has not always been the case. Throughout history a wide variety of items have been used as money, or a unit of account. In ancient Rome, they issued the silver Denarius.



During the 17th century, Sweden issued copper plate money, also known as riksdaler plates. For much of the Middle Ages, Florence issued a gold coin known as the Florin. Yet many times in history, what is used as money isn't an official currency issued by a government. Some of the items used were cattle, sheepskin, bags of rice, cowrie shells, grain, and even slaves. Those items often were not actually used as a medium of exchange, but only a unit of account to value something against. For example, there would be general agreement about what a bronze sword is



worth in terms of cattle. Everything would be priced in cattle, even though cattle weren't actually being exchanged for the product. Ultimately, whatever the general population has confidence in is what will be used as a unit of account or a medium of exchange.



In Japan, there was period of roughly 600 years when the emperors lost the ability to issue currency. Prior to this, each time a new emperor would come to power, they would issue new coinage and simultaneously devalue the coinage that was already in circulation to only 10% of its previous value. After a few cycles of new emperors doing this, the Japanese people simply stopped accepting this coinage as money. As a result of this collapse in confidence in the official coinage, the Japanese people resorted to using bags of rice as money, or they would use foreign currency such as Chinese coins. This lasted until the Meiji Reform of 1870 when the Yen was created (there were some regional currencies created during the 17th-19th centuries, including the Tokugawa coinage). Prior to that, the last official Japanese coin was issued in 958 AD. This exemplifies how the average citizen will use what they have confidence in and what treats them the best.

In the almost fable-like story of Japan, the government's assumption of the power to dictate the value of money any way they pleased with no understanding of the consequences, based solely upon the idea that the emperor is chosen by God, ruined the economy. The coinage failed to provide a store of value for the citizens, and the people returned to a barter system. Conversely, tangible goods with some functional value continued to be used, such as rice and silk. In times like these, the owner of productive farmland with the tools and labor to provide food, will retain their wealth, if not becoming even more in demand. On the other hand, someone with a hoard of the coinage that is now worthless, has lost a fortune. A government issued currency will often be more convenient and make an economy more efficient, but it requires the trust of the population using it. Once that trust is breached and confidence is lost, like water finding its level, the people will resort to other means that treat them better. Capital will always flow to where it is treated the best.



There are a lot of suggestions out there as to what money really should be. People will promote what they believe will be the perfect currency and solve all of society's monetary problems. Often these folks will focus on certain aspects of gold or cryptocurrency, for instance.



They may speak of crypto as a store of value because there is some formula limiting the creation of new units. They will speak of gold being something tangible that can be proven to exist, the metal content can be proven, and there a limit to what is available. They love to bash what they refer to as fiat currency. The most fallacious argument made is that their preferred currency will provide a store of value. The reality is no

currency that could ever possibly be contemplated could ever truly provide a perfect store of value. There are a variety of reasons for this, including government mismanagement, every gold standard in history has failed. The most pertinent reason however is because money or currency will ALWAYS move opposite that of assets. If an asset is going up in value, then naturally that currency is going down in value, relative to that asset. If an asset is going down in value, the currency is being valued more than it was previously. Values will always fluctuate, based on what the marketplace is communicating. Human nature makes that inevitable. . To park accumulated wealth in a currency under the belief that currency will continue to increase in purchasing power would be



directly betting on indefinite and infinite deflation. Endless deflation simply isn't possible for a functioning society. So, if someone is purchasing Bitcoin, for example, under the belief that it will go up in value; they really aren't buying it because it is some great medium of exchange or unit of account. They are anticipating that it will go up in value, no different than any other form of speculation. Something that crashes by 2/3rds in less than a year clearly isn't a store of value, that is 3rd world-level currency volatility. No major capital would look at that economy as stable

enough to invest in. Crypto and gold are nothing more than trading vehicles, they will continue to go up and down in value based on the marketplace.

Many people will say that they hate money, or that money is the root of all evil. The actual quote is “For the love of money is the root of all evil” from 1 Timothy 6:10. Money is just the communication of how individuals value another item or service, it provides the ability for accounting. Money isn’t good or bad, it’s indifferent. The love of money, or wealth or materialism, is the iniquity. As Alan Watts once said “Money is something of the same order of reality as inches, grams, meters, pounds, or lines of latitude or longitude. It is an abstraction. It is a method of bookkeeping to obviate the cumbersome procedures of barter.”

The reality is that the definition of money will always change. Just as empires rise and fall, currencies that once were dominant on the world stage fade to extinction. The Athenian Owl hasn’t existed for thousands of years, but at the time, it was often imitated by other nations because of the confidence that individuals had in it. The Roman gold Aureus coin was imitated by India with a significantly higher gold content. Coinage of the dominant economies would carry a premium over just the metal content, because of the confidence people had in it. They knew there was a vast marketplace where it would be accepted. Imitation was truly a form of flattery in these instances. The United States was bankrupt in 1896 when the government had to be bailed out by JP Morgan. By the end of WW2, the USA had the most gold reserves in the world. Ultimately, this led to the creation of the Bretton Woods monetary system. It is very likely that the world will go through another dramatic monetary reform in the not-so-distant future. This is simply the way the world works. Things will always change. Nothing is ever stagnant. The cycle must continue. It is important to be aware of what is happening in the world, and it is equally important to remain agile enough to adapt to dynamic conditions.

