

Is gold evil? How else you can insure against a financial crisis

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I have been told that investing in gold has two strikes against it:

1. Frozen money

Strike 1. When you buy stocks or bonds, you help create jobs, and support a vital economy. Owning gold is *purely* speculative; it adds nothing to the economy, and "freezes" money, which contributes to recession. Buying gold makes a crash *more* likely.

My view: I am viewing gold as an store of value as insurance against paper money inflation and crashes more than a speculation. I imagine it is as economically productive as making an insurance payment for other kinds of "insurance".

As far as not adding to the economy I am not clear how buy a stock, gold or anything else is different from each other. In all cases money changes hands and the other person may spend the money on employee salaries or buy other goods and services. Most money invested in stocks does not go to the company who's stock you buy - that only happens with an original IPO or other stock issue. The rest of the time the money is going to someone else who had bought the stock previous, who bought it from someone else,... The stock changes hands many times at no direct benefit to the original company or their jobs. Is that not "freezing the money" too? Sure it creates jobs in the stock market and back office, but that is true of any trading, including gold trading.

2. Dirty mining

Strike 2. Mining gold is a politically [corrupt, environmentally damaging, and exploitative process](#) . Buying gold supports wars and displaces indigenous people. The production of one gold ring generates 20 tons of wastes. Gold mining is without doubt one of the world's dirtiest industries: it uses cyanide, generates heaps of wastes, and leaves a long-lasting scar on landscapes and communities. More than half of all gold comes from indigenous peoples' lands. In places as diverse as Ghana, Indonesia, the United States, and Peru, gold mining operations have displaced people from their homelands against their will, destroyed traditional livelihoods, and damaged ecosystems. Indigenous people in particular disproportionately suffer the negative effects of gold mining, adding to the injustices they already endure.

My view: Most of the investment gold on the planet was mined many years ago, only a small percentage is mined each year. And I can see how demand for gold does increase the incentive to do more mining now. Just as the price of oil increasing has led to more dangerous oil extraction methods like deep water drilling, tar sands and fracking. This is true for all extraction on a finite planet I think.

As to whether you want to support a particular type of economic activity such as gold mining that is another question. I imagine you are right about the effects and while I have not seen gold mines in South America I have seen the local people protest about pollution and poor working conditions from other mining here in Peru and Bolivia. In addition many mutual fund index funds hold stocks in all kinds of companies that you may not like what they do eg selling tobacco or alcohol or employing cheap labor abroad. Let alone tax money and treasury bond purchases that partly goes to pay for wars in other countries... And as many companies and certainly their employees pay taxes you can be sure that some of your money is going to support some pretty nasty wars.

However I think it is the case that most natural resource extraction these days has similar issues. So for example if you own a car (or even just ride on the bus) you are contributing to oil company behavior for the gas and plastics used, plus the rubber plantations for the tires, and metal mining for the car body. The same can be said for many other purchases in modern society. As for computers and electronics they use gold and rare earths in their construction, so consider that next time you use a laptop or iPod.

The question then becomes how useful is what I gain from buying a certain item vs the trade off negative consequences of that purchase. That is a personal ethics question and balancing act.

The ethics of economic activity

I have thought about the "bad" effects of my economic choices which companies I contract to (and who do they contract to...) a lot in the past. And in the interconnected world we live in it is very difficult to reduce my effect on the planet let alone eliminate it. When I have a clear choice I often do what is better. I also think that there is a level where all is good, both the "good" and the "bad". And I look to see if my direct interaction with others is positive for them and me.

How to insure your wealth in a financial crisis

Back to the question of how to insure your wealth against high inflation or other financial crashes. An alternative stores of value that may do well in a financial crisis that might appeal if you don't like gold are

- farm land
- collectibles such as artwork
- foreign currencies such as Norway Krone, Singapore dollar, Chile Peso held in a foreign bank with a high liquidity ratio (ie they either only loan out less than 50% of the deposits or many none)

If anyone has any other suggestions I am interested!

Diversification in asset types, currencies and countries is a good strategy to preserve your wealth in all times, and especially so in chaotic times like we are in now.