

Funding the Future

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Every time I post a video about money, people appear claiming only gold is money and that we must go back on the gold standard. Those saying so are economic dinosaurs who do not understand how the modern economy works and would rather we go back to the era that delivered the Great Depression precisely because of the obsession with gold. They really do need to be ignored.

<https://www.youtube.com/watch?v=CXGQbIHDuMM?si=eAx9bBKBUvWWXppp>

This is the audio version:

https://www.podbean.com/player-v2/?i=2j3i7-16d1d16-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=ff6d00&font-color=&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

What is the obsession with gold?

People keep telling me, gold is the only real money there is. That comment turns up on YouTube videos regularly.

And then people ask, If gold doesn't matter, why do central banks own it? After all, the Bank of England does have a vault underneath it, in which there is tons of the stuff. And I literally mean tons of the stuff. Every now and again, you will see a picture of it. And in that one image a great narrative is made available to us.

Did that pile of gold that the Bank of England is quite happy to acknowledge exists help it get through the financial crisis of 2008? No, it didn't whatsoever.

Did it help it get through the Covid crisis? No, again, it didn't whatsoever.

Why is that? Well, that's because money is simply not transferable into gold.

Money can be used to buy gold, and gold can be sold to raise money. But the Bank of England doesn't need to raise money. It makes the stuff, so it doesn't need to sell gold to therefore raise cash.

So, why does it hold it? There is only one logical explanation for that, and it is because historically it always has. There is no other justification for its obsession with gold or anybody else's obsession with gold, let alone the idea that gold is somehow money, which it most definitely is not, because we have a fiat currency, meaning that we do not have an asset-backed monetary system in the UK, and nor has any other country in the world now of any consequence.

So, why is the gold there? Because it supposedly gives us faith in the ability of the Bank of England to make payment, when and if a crisis comes, which is nonsense because we wouldn't accept gold. We couldn't take a bar and go down to the shops and say "Here's a bar of gold. Will you accept it?" because, of course, it would be way disproportionate to the value of any transaction that we were going to undertake unless we were going into an estate agent, I guess, to buy a house. And as a consequence, those bars of gold are good for nothing, quite literally.

They are just a token. And the token that they represent is that the Bank can pay.

But the Bank can pay anyway.

So, all the gold does by sitting there is to provide reassurance to those who do not understand the banking system that there is a means to pay even though gold has nothing to do with it.

And the bank can't be bothered to actually tell them the truth.

The gold holdings are just part of the reserves of the Bank of England, which could, if they so wish, be flogged internationally to boost the holdings that they have of dollars, or euros, or krona or whatever other currency you want to talk about.

So yes, in that sense, gold has a value because it can be swapped for the currency of another country because most country's central banks do hold gold to preserve the value of a currency in that way, but again, the number of gold sales for this purpose are tiny.

And if we had wanted to preserve the value of the UK pound, first of all we wouldn't

have done Brexit, because that cost us a quarter of the value of the pound at the time.

And secondly, we'd have sold the gold since to support the value of the pound, and we haven't.

So, all in all, that gold does absolutely nothing.

It has nothing to do with the value of our currency, which is backed by the work of the people in the UK, and the value of the transactions that we undertake, and the value of the taxes that we pay, and the value of the goods and services that we can export abroad, which, despite all rumours, actually is quite significant, and, instead, the gold is just there to represent history. A very expensive history lesson, but completely meaningless in the context of the modern economy.

So, whenever anyone says only gold matters and flee for gold because money is going to fall in value, what they're saying is they believe in the economic system that existed when we were on the gold standard about a century ago, which brought us into financial crisis and led to the great depression of the 1930s, and they have no understanding of the way in which the modern economy works. Ignore them.

Gold is not what drives our economic system now, or our monetary system. The obsession with it is just an obsession. And most obsessions of this sort are pretty harmful to well-being.