Gold by Alice Roth

Looking to hard commodity options

Nearly every financial group is engaged in a speculative flight into gold and silver which could simply dissolve the dollar-centered monetary system.

Racz International, a New York-based brokerage house newsletter, reported in February:

"The announcement that Sunshine Mining intends to float a $50 million silver-backed loan in the United States is the beginning of practical remonetization of gold and silver. By the end of 1980, $5 to $10 billion in corporate or government loans could be tied to gold and silver or some other form of commodity backing. By 1981, the figure could reach $50 or even $100 billion, with the resulting devastating effect on the dollar. Silver, gold, or other commodity-indexed loans will crowd out and depress the value of dollar-denominated, fixed-income securities—the latter unfortunately currently forming the value system of our day-to-day monetary existence."

Mr. Andrew Racz's scenario is hardly exclusive. If the issuance of gold-backed securities were tied to economic policies that reduced inflation, ordinary fixed-income securities would rise in value. However, the Sunshine operation, which includes $300 million of silver-indexed bonds issued through Luxembourg, might have the importance that Racz ascribes to it.

Virtually every important financial group in the world has prepared a form of hard-commodity fallback option "in the unthinkable circumstances that everything else fails," as Robert Roosa put it before a Feb. 20 press luncheon in New York City. Sunshine, which sold 19 percent of its shares to an Arab investors group that includes members of the Kuwait ruling family, is a crack in the dam.

Various other cracks have appeared in the past week. In a Feb. 25 piece for the *Times* of London, former British Prime Minister Edward Heath, a prominent member of the Brandt Commission, let slip the suggestion that the International Monetary Fund might borrow using gold as collateral—which would be a de facto remonetization of gold by the institution which most sought to eliminate the metal from the monetary system. Morgan Stanley, the most blue-chip of Wall Street investment firms, is circulating a for-clients-only report arguing a direct relationship between the gold price and the rate of credit expansion.

This could cause a chaotic dissolution of the monetary structure in the West and the "flight from all currencies into commodities," in the phrase of Bank of England advisor Sir George Boulton. In this event the current stabilized price tier of gold in the $600 range and silver in the $30 range would break sharply upwards, and gold would be simply another commodity suitable for indexation.

The expectation of a big price run-up and a flight into all commodities implies the complete paralysis of European governments, who have an entirely different plan. The European objective is to use gold reserves mobilized from their 500 million ounce stockpile to stabilize world markets and currencies. The price objective in the context of gold-based stabilization could be as low as $500 an ounce, reports the Japanese daily *Mainichi*. In that case, central banks who have held gold or purchased gold as a reserve asset will win. Speculators who bought on expectation of a price run-up will lose—at some point. Nevertheless, Dresdner Bank Managing Director Hans-Joachim Schreiber, who buys for Arab governments and strongly supports a gold-based monetary system, believes that the price may run up to $1,000 before any stabilization occurs.