

Gold by Montresor

Is there a gold glut?

Contrary to the London Economist's mythologies, more gold production will be needed if international trade is to expand.

The London *Economist* of March 28 warned of an international gold glut, predicting that production will achieve the unprecedented level of 2,000 tons at the end of the century, compared to this year's already unprecedented 1,375 tons. By comparison, only 700 tons a year were mined in the years immediately following World War II.

What the *Economist* points out is by no means irrelevant: "Despairing of an upturn in the price of tin, copper, zinc, and so on, the big international mining companies are turning their attention instead to gold production. . . . The risk for the market is not of scarcity but of so much more of the stuff being mined that gold would begin to lose its rarity value. . . . Gold production is also soaring in some of the developing countries that are shunned by the big mining companies. Peasants digging their own tiny claims have helped Brazil to double its gold production, to nearly 75 tons a year, since 1981. The dangerous honeycombs of mines they create (in Bolivia and Peru as well as Brazil) recover on average only about 30% of the gold available."

One could continue in the same vein, citing the effectiveness of technologies now in the workshop stage, upon limitless amounts of gold-bearing sands in the American West, or, indeed, the implications for refining of direct-reduction metallurgy (through thermonuclear fusion at scores of thousands of degrees centigrade). Indeed, the mining technolo-

gies now on the horizon, regardless of the current investment programs of the mining cartel, promise to eliminate the term "rarity value," from the economic vocabulary for all time.

Why should that have anything to do with the price of gold?

Like most crystal-ball attempts at predicting the future gold price, the *Economist* piece contains an unstated assumption, that there is some definable amount of "demand" to be correlated against a given "supply." Demand, supposedly, constitutes a combination of dental and industrial needs (a few hundred tons a year), and the marginal desire of holders of paper to hedge portfolios, adjusted for the Soviets' (or South Africans') foreign-exchange requirements for that year, and so forth.

None of that has much bearing upon how the gold market has worked since the pound sterling collapse of 1968, or how it is likely to work in the future.

Let us restrict attention to the dollar price of gold. The American economy has doubled its indebtedness since 1979, to approximately \$9 billion; meanwhile its output of steel has fallen by half, of machine-tools by two-thirds, of automobiles by 20%, of farm equipment by 60%, of nonferrous metals by 65%, and so forth. The backing for such debt in tangible-goods production has fallen sharply, while the debt has doubled; it is a fair guess to say that debt-instruments denominated in dollars are worth a bare one-

third of their 1979 value.

However, the underlying devaluation of the dollar has been masked by a subsidy to the United States by other nations, amounting to 25% of America's annual consumption of new capital goods, and 20% of total goods consumption.

Under the most pleasant circumstances, in which the United States undertakes to pay for its goods in hard currency (rather than the IOUs whose dubious value was tested on the disastrous markets at the end of March), would presume a massive devaluation of the American currency, to a hard, i.e., gold-backed value, of no less than \$700 per ounce of gold, and perhaps considerably more.

Under the worst of circumstances, in which holders of American IOUs (e.g., Japan) sought to cash them in for something valuable, the dollar's value in terms of gold would become singular, and there would be no ceiling to the gold price (e.g., if the Japanese cash in \$100 billion of Treasury securities, U.S. banks and savings institutions collapse, and the Federal Reserve prints limitless amounts of money to bail them out).

Assuming that humanity employs gold for sane purposes, under the first alternative, in which the United States rebuilds its industry to back its internal debt, and drastically increases exports to back its foreign debts, more gold will be needed, as a reserve-base of international trade. Even to return to the growth-rates of international trade of the mid-1970s, would require annual growth of 20%; much more is, in fact, required. The *Economist's* supposed scare-number of 2,000 tons' annual production in the year 2000, bespeaks an annual growth rate of less than 4%. In fact, new technologies would have to be introduced much faster, to meet increased demand for central bank gold reserves.