Gold by Montresor

The case for gold

A rare statement of opinion on the part of our distinguished columnist, who has surfaced once again.

My view has been, since I agreed to put my thoughts in print for this publication, that the role of a journalistic commentator is to provide useful information perhaps not obtainable elsewhere, and *caveat emptor*. Gold is, after all, not an investment—it is a sterile metal—but a form of insurance policy against monetary turbulence.

However, under the circumstances, it seems reasonable to argue that those who do not now own gold might do well to purchase some in the $370-to-$380 range [gold closed at $379 when Montresor's column went to press—ed.].

There are three basic directions which the world economy might take, and two of them would be good for gold; the third, although bad for gold, could not last long. That is, the Federal Reserve Board might decide to force into the United States the volume of capital flows obtained last year when more foreign savings were available in general, this by pushing interest rates up fiercely. Under such circumstances, the price of gold might drop nastily, but the impact of such a policy upon the creditworthiness of the entire world would militate against its long duration.

Otherwise, the European portfolio managers who have been the dollar's greatest support will begin to withdraw funds, let alone place new ones, and diversify into gold, among other vehicles; or, the Soviets will demonstrate even to the Swiss that it is bad business to make quiet deals with the Russian Empire, and, by some terrifying action, persuade them to run for safety. Under either of these conditions, gold should improve substantially.

What prompts me to draw attention to the obvious is less any single event than the awful malaise detectable at the American Treasury, at the International Monetary Fund, in London's City, and other centers of financial policy.

The resolution of the Argentine crisis at the end of the last quarter sets in motion a possible confrontation between the United States and its chief debtors which can benefit neither, but might well trigger a general monetary crisis of dreadful proportions. It appears to be time to take out one's insurance.

One unpleasant indication of the possibly central role of gold is the recent action by the Colombian government to purchase all the gold that narcotics traffickers can bring into the country from Panama.

With the collapse of dollar credit operations in Latin America, locally produced gold has become something of an international currency, along with bags of coffee, American $100 bills, and other relatively transportable items that can be used to bring funds across international borders. The subject of a wire-service item on April 7, the example is instructive.

Like most Latin American currencies, the Colombian peso is available on the street at a 40% discount. The government is, therefore, buying gold in pesos at a "premium" over the official rate, paying about 30% over the dollar-equivalent official price.

In the past, the government used its *ventanilla sinestra* to obtain dollars obtained on an illegal basis, in order to build up its currency reserves. It has now shifted to buying gold obtained on an illegal basis, for roughly the same purpose.

Colombia's government does not have very much choice in the matter; it has been pushed in this direction by the decision of underground economy operators to shift into gold as a means of international payment.

Considering the difficulty of maintaining dollar accounts in the Caribbean and other offshore centers in an era of exchange controls, it is not surprising that the dollar (except as sheer currency) would lose ground in the Latin American narcotics traffic.

But these developments on the borderline of financial life indicate the broader problems involved. It is not merely that the bank accounts of those who smuggle drugs out of Panama are no longer secure, because narcotics-money tranfers may no longer be mixed into the flow of flight capital from other sources. It is not merely that black money stands out because the flow of grey money has attenuated. The banking system which grew explosively with the 1970s offshore bubble is no longer viable, and the banks who built their branching networks abroad are over-extended.

This identifies the possibility of a general monetary crisis, with a much worse outcome for the dollar than sterling suffered (cushioned by the British Empire's colonial trading base) during the aftermath of July 1931. It is impossible to tell what will happen to gold in the short run; it is merely the case that the insurance policy is now priced relatively cheaply, while the dangers to be insured against have grown out of hand.