

Gold by Montresor

Can the U.S. break the gold cartel?

Geologically, the answer is yes, since private studies indicate that gold deposits in the United States have a great, unpanned potential.

Opponents of gold's reserve role in the world monetary system fall back upon one argument when all else fails: Since the majority of world gold supply is produced by South Africa and the Soviet Union, would a monetary system dependent upon newly-mined gold not be subject to excessive influence by states whom the United States despises, or, at least, distrusts?

This argument is, perhaps, the only one which cannot be answered adequately on the basis of current circumstances. South African gold output accounted for 62% of non-communist world production last year, according to Consolidated Gold Fields of South Africa, with about 680 metric tons of gold; if Soviet output of about 400 tons were added, the combination would account for about 73% of total world gold supply.

Increasing Latin American production (134 tons last year against 105 tons in 1982) has somewhat lowered the South African and Soviet percentage of total, but so much of this gold, largely panned by unemployed migrants, filters into the world underground economy that it does not represent a challenge to the gold cartel.

American production of only 50 tons in 1983 represents a relatively poor performance, although it does reflect some new mining capacity coming into production. Since Americans control barely one-tenth of the world's private gold hoard (in the estimate of the International Gold Corporation), and barely one-thirtieth of current world production, how could the United States propose to dominate a

gold-based monetary system?

Strictly speaking, not the flow of gold into monetary reserves but, rather, the soundness of international trade conditions determine the stability of a gold-reserve monetary system. A relatively small amount of gold will suffice for reserve balances if trading and associated credit arrangements do not undermine the great reserve currencies. If the United States, in particular, were to run a trade surplus, as a great industrial nation should, the gold presently owned by the U.S. Treasury would be sufficient to stabilize the dollar on a gold-reserve, fixed-parity basis.

Nonetheless, control over world gold production represents a strategic capability in the hands of the Soviets and their half-willing cartel partners, the South Africans. The leading British gold mining interests, whose influence in South African mining accounts for the close cooperation with Soviet trading interests, take the view that this state of affairs must last forever.

For example, *Gold 1984*, the annual review of Consolidated Gold Fields of South Africa, writes:

"Despite the almost universal search for gold since 1980, the expansion of existing operations and development of new mines have resulted in the additional total supply of a mere 14% over the period. This is proof of the fact that in many countries, for the most part the deposits which have come on stream have been small, low-grade operations, with in some cases at least, limited reserves. Over the next

two to three years, some quite sizeable new mines will open, but even so, these are unlikely to push total production close to the 1970 peak of 1,273 tons."

I should like to ask Mr. Timothy Green of the Consolidated what the great firm's agents found on the northwestern border of Colorado last year. Herbert Hoover, then a mining engineer, reported the existence of gold dispersed in particles too fine to recover through normal washing methods in Routt County, Colorado, in a report to the *Engineering and Mining Journal* published May 22, 1897. Consolidated attempted to gain control of large numbers of claims in the area, in which some mining engineers believe gold may be produced at an effective cost of production of \$75 to \$200 an ounce, depending on which estimate one reads.

According to one private study by a reputable mining engineer, already-explored gold deposits in the area are capable of producing 40 tons per year—almost as much gold as the United States produces. That figure represents only a fraction of the potential of the region since financing available to companies operating in the area has permitted only limited verification of gold reserves in a vast area.

There is little doubt that, given sufficient financial support, American miners equipped with existing advanced technologies for gold recovery could rival, if not surpass, South African production within a very few years. The United States could, with confidence, embark on a gold reserve system knowing that with an investment of a few hundreds of millions of dollars—a fraction of what a single percentage point in the rate of interest now costs—it could be on the way to challenging the South African and Soviet position in world gold mining.