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Faculdade de Odontologia do Recife

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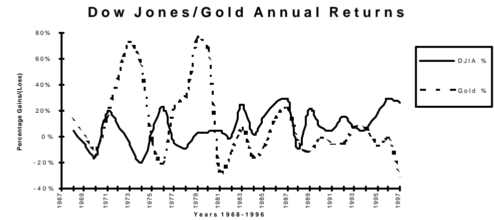

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The Near Death & Resurrection of the Gold Mining Industry

By

Larry Parks, Ph.D.

> "*Sometimes it has to get very dark before you can see the light*"
>
> Indian Proverb

Introduction

About 150 years ago, roughly 100,000 men made a very grueling trip from China to San Francisco to look for gold. At about the same time, roughly 50,000 men in the Eastern part of the U.S. made an even more arduous and dangerous three-month trip walking or riding in wagons across the country. Along the way they faced natural disasters, wild animals, Indian attack, sickness, injury, and more dangers than one can imagine. Still another 35,000 men from the Eastern U.S. went by ship to Panama, where they crossed the Isthmus on foot to the Pacific, from where they took another ship to San Francisco.

It's hard to envision a business opportunity that would motivate folks to walk across the country, even staying in Holiday Inns and eating in decent restaurants. One can only imagine the high esteem enjoyed by gold mining to inspire people to participate at that level. And the California Gold Rush wasn't the only one. There were others. In South Africa, for example, many people exposed themselves to extraordinary dangers to prospect for and mine gold. I think it is fair to say that gold mining was one of the premier industries at that time.

Fast forward to today. About three months ago, I attended a gold conference in New York City hosted by Smith Barney, one of the world's most prestigious brokerage firms. They could not *give* away a sumptuous lunch in the Plaza, one of the world's foremost hotels. True, one had to be a money manager to attend. But if the event were about the Internet, they would have had to rent the ballroom. In addition to the swank venue, Smith Barney assembled the superstars of the industry: Randall Oliphant, COO and Vice-Chairman of Barrick; Ronald Cambre, CEO and Chairman of Newmont Mining; Jay Taylor, CEO of Placer Dome; James Muffett, CEO and Chairman of Freeport McMoran; Jack Thompson, CEO and Chairman of Homestake Mining. And, in some cases, these CEO's came with retinues.

At one point, as Randall Oliphant was speaking (the second day), I looked about the room and I don't think there were even two money managers in attendance! There were 22 people in a room that could easily hold 150. About 12 of the 22 were Smith Barney employees. About 7 or 8 were other presenters; and the remainder might have been prospects for Barrick's stock, but maybe not. The point is that no one is much interested in gold anymore.

How did this happen? How did what was once one of the world's premier industries become one of the most reviled? What forces caused this? Who were the major players behind it? What were their motivations? What was the response of the gold producers? And, finally, how is this debacle going to be turned around?

If present trends are allowed to continue, in five years the industry may well be a memory; the mines closed, the employees out of work; and the shareholders wiped out. Business as usual will not do. It is urgent that the producers rethink their predicament and embark on a new path. Old concepts, assumptions and strategies, which have demonstrably failed, must be discarded.

The producer response to lower gold prices

As the gold price has drifted lower over the past twenty years, the response of the gold producers has been an *engineering* response. The producers have been very innovative in finding new ways to get gold out of the ground ever more efficiently, and they have been very resourceful in finding new reserves. But despite their superb technological and prospecting achievements, they have not been rewarded, and neither have their shareholders.

The gold-as-jewelry strategy has not helped

The amount of gold fabricated into jewelry is a *contrary* indicator of the well-being of the gold producers. More gold fabricated into jewelry corresponds with a *lower* price for gold, *lower* profits for gold producers, and a *lower* market capitalization of their companies.

Consider the evidence:

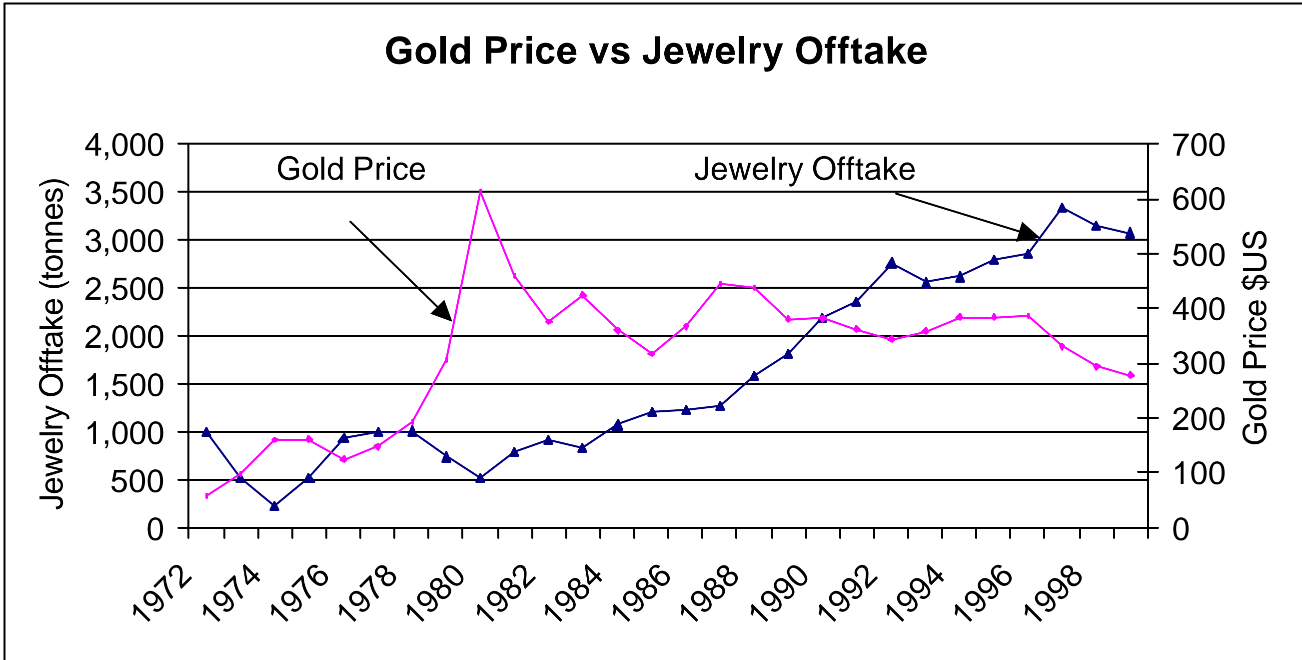

Chart 1: Jewelry gold offtake for the years 1972 – 1999 vs. the price of gold (source: Tonnage gold used for jewelry fabrication from Gold Fields Mineral Survey; Price data from Kitco www.kitco.com).

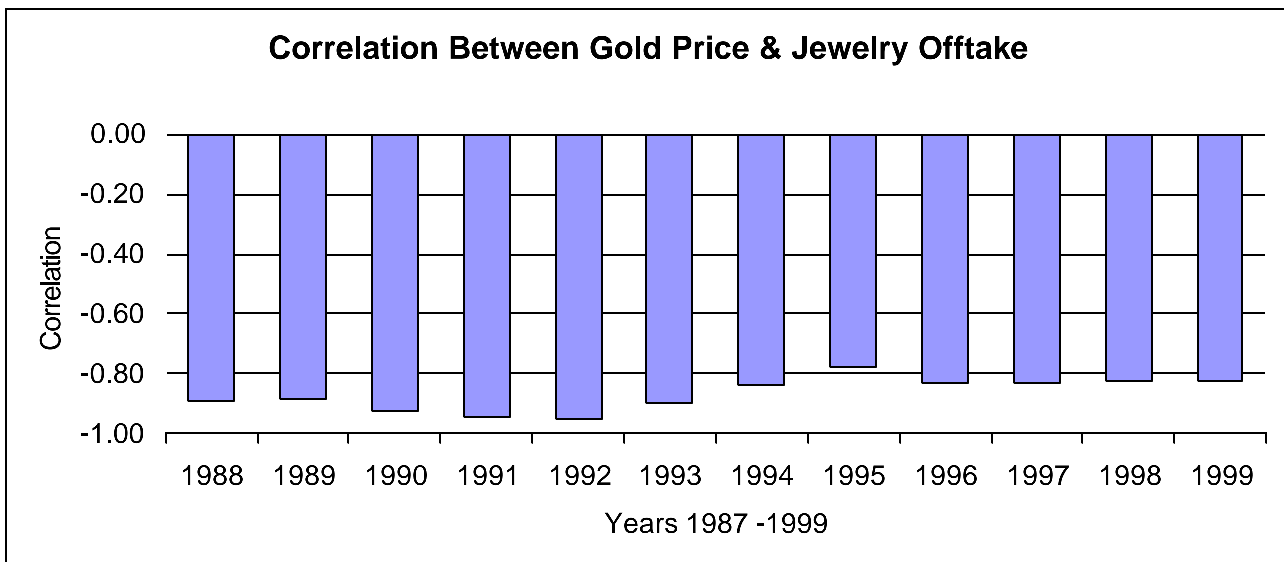

Chart 2: Correlation between the price of gold and jewelry gold offtake for the years 1987 (the year the World Gold Council began operation) and 1999. Data sources: jewelry fabrication from Gold Fields Mineral Services; Gold Price data from Kitco (www.kitco.com).

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While correlation does not prove causation, it is noteworthy that since 1987 jewelry offtake and the price of gold have had consistent and significant *negative* correlations. The data indicate that for more than fourteen years, whenever the price of gold decreased, jewelry offtake increased, and vice versa. Either way, especially in light of these high negative correlations, the clear implication is that promoting gold jewelry will not be profitable for the producers.

Mindful of this evidence, *why does anyone believe that further increases in jewelry offtake will reverse a relationship that has held for almost two decades?*

Jewelry is a low-value marginal use for gold

The above data suggest that jewelry is a low-value/low-utility marginal market for gold, albeit one that can, as the price decreases, suck up an unlimited amount of gold. It's as if Perrier Water was diverted from its primary high-value/high-utility market as drinking water to a much lower-value/low-utility market, such as crop irrigation. It's not worth $2 a bottle, or even five cents per bottle, to water crops.

When the gold price is perceived as cheap, more of it is fabricated into jewelry. If gold demand for a higher-value use increases, then the gold price increases, and gold demand for jewelry fabrication falls off. In other words, jewelry fabricators are akin to marginal salvagers; they use more gold when the price decreases. By promoting gold jewelry, the producers have diverted gold from a higher-value use to a much lower-value use. This is confirmed by the empirical data.

Understanding the evidence

The most important insight to be gained from this data is that a *decrease* in jewelry offtake coincides with an *increase* in the price of gold. Any increase in the price of gold means that there *must* have been *increased* demand. The *use* of gold to which that increased demand was put, therefore, *must* have a *higher* value to whomever bought the gold than to those who buy gold for jewelry fabrication.

Whatever the higher-value use of gold is, *that* is the market the producers should concentrate on; *not* jewelry fabrication, which, as the data confirms, is a lower-value use.

The evidence (*Chart 3*) shows that large increases in inflation correspond with a higher gold price. *Gold used for jewelry fabrication has nothing to do with the result.*

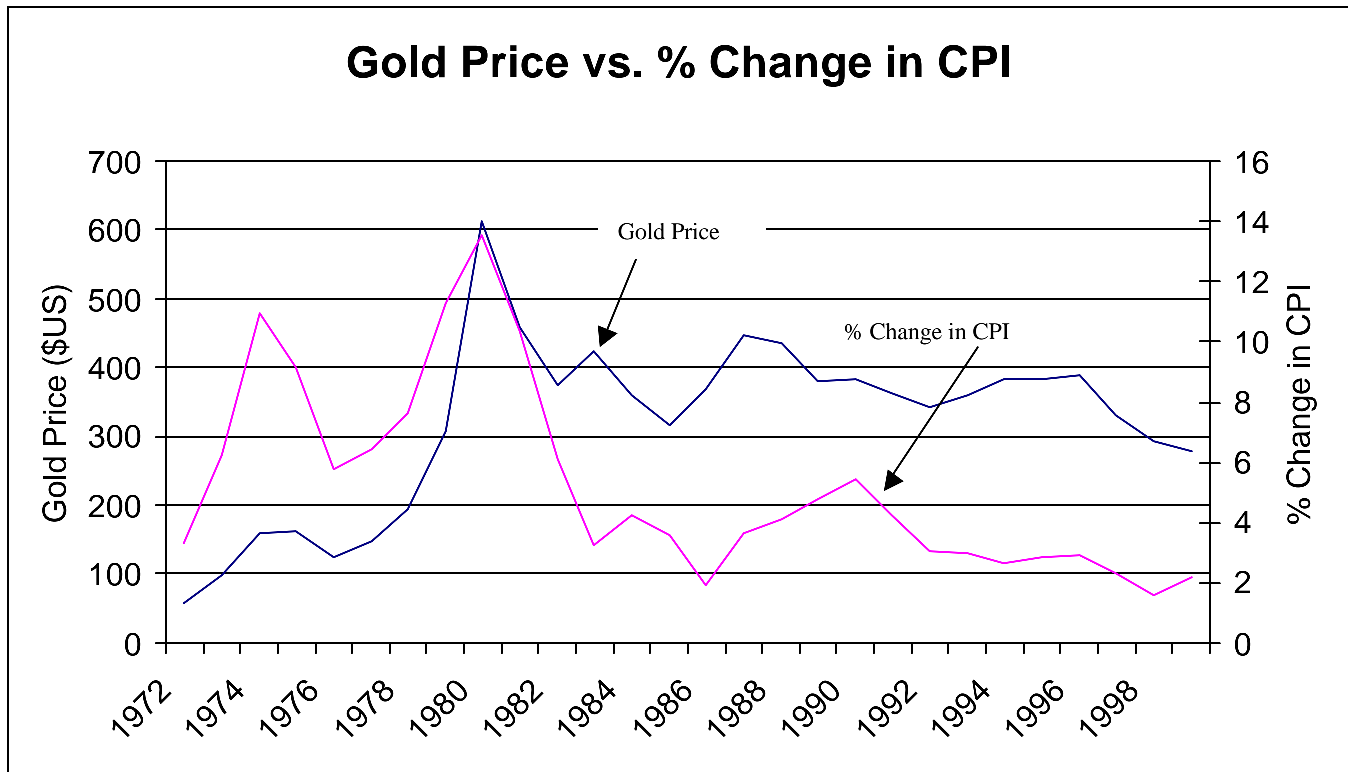

Chart 3: Gold Price vs. % changes in the Consumer Price Index (CPI) for the years 1971 to 1999. Data Source: Gold prices from Kitco (www.kitco.com); CPI data from the Federal Reserve of St. Louis. Series ID: CUUR0000AA0, Not Seasonally Adjusted, Area: U.S. city average, Item: All items - old base, Base Period: 1967=100.

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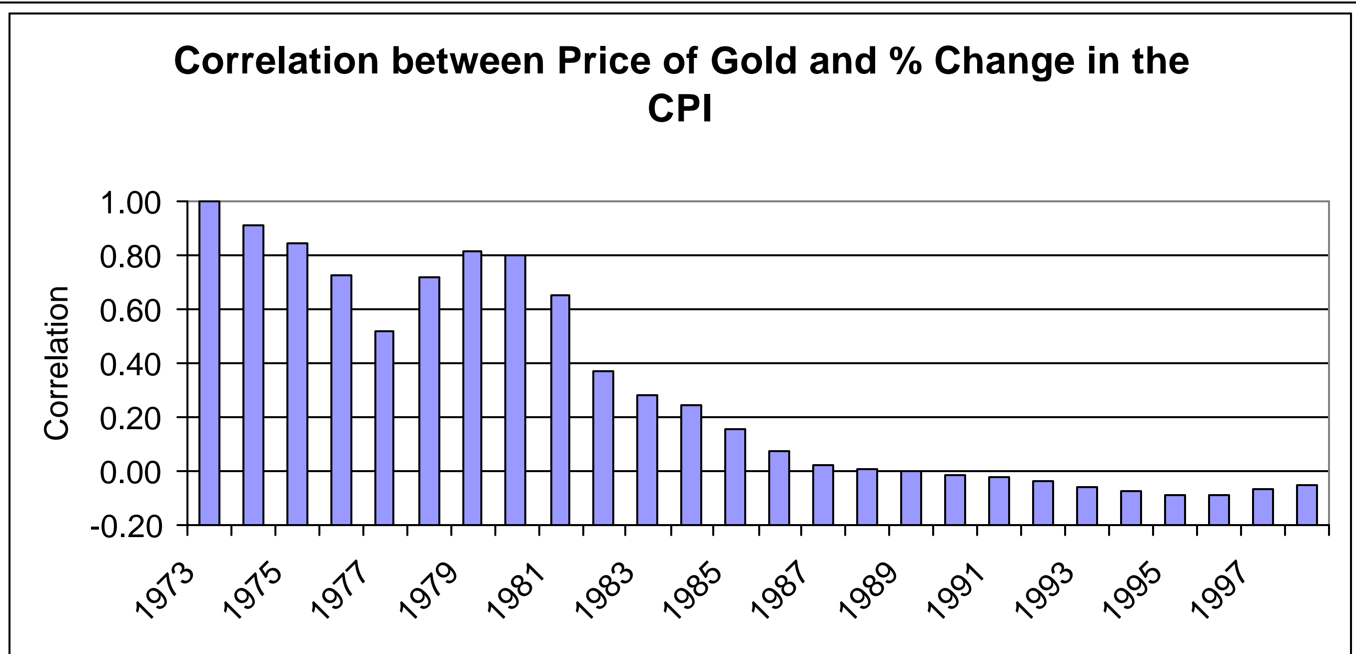

Chart 4: Correlation between the price of gold and percent the Consumer Price Index for the years 1972 to 1999. Data Source: Gold prices from Kitco (www.kitco.com); CPI data from the Federal Reserve of St. Louis. Series ID: CUUR0000AA0, Not Seasonally Adjusted, Area: U.S. city average, Item: All items - old base, Base Period: 1967=100.

The positive correlation between the gold price and the percent change in the CPI in the 1970s until about 1982 could have been the result of increased demand for gold after the criminal penalties for owning gold in the U.S. were removed in 1974. It may also indicate a relationship between the price of gold and perceived inflation, which was high during this period.

What is more telling, however, is that there is no longer a correlation between the price of gold and perceived inflation, which still persists, albeit at perceived low levels. Was this the result of official sector selling and denigrating gold—either of which could be claimed to be an attempt at manipulating the gold market? Did the repositioning of gold from gold-as-money to jewelry contribute to the lessening in the public mind of the tie-in between gold and money?

As I have discussed elsewhere,[1] gold is in competition with fiat money—a.k.a. "funny money," a.k.a. irredeemable paper tickets, a.k.a. tokens, or as President Roosevelt's Secretary of the Treasury William Woodin put it in 1933, "stage money."[2]. Therein lies the paramount opportunity for gold and the gold producers: win the competition for money, and gold will be put to its higher-value use: gold-as-money.

Perhaps more essential to influencing the price of gold, however, the mere *possibility* of credible competition for the "dollar" will send gold soaring. Were the media to merely *ask* basic questions relating to gold-as-money, such as how gold might better protect savings or end the so-called "contagion" that has led to currency instability in the Far East and elsewhere, some people would begin to allocate a portion of their savings to gold.

Promoting gold jewelry fabrication has alienated institutional investors

Starting in the early 1990s, and taking their cue from the industry trade association, the World Gold Council (WGC), Wall Street analysts argued that the shortfall in yearly gold production as compared to yearly gold jewelry "consumption" was bullish for gold and for gold stocks. It was indeed a rare analyst report that did not highlight the bullish case for gold based on an expected increase in gold jewelry fabrication and the expected gap when compared to current gold production.

When the analysts' prediction of increased gold jewelry fabrication came true and the gold price—and concomitant gold share prices—*decreased*, two things happened: First, institutional investors that had bought into the gold-as-jewelry analysis dumped their gold mining shares, thereby depressing shareholder valuations. Institutional investors abhor negative surprises not only because it degrades their results—and their bonuses—but also because it makes them look incompetent.

Second, analysts who proffered the jewelry story were discredited. From then on, institutional investors declined to take their phone calls or pay attention to them. Commissions to their houses fell off, and many (most) of these analysts left the business.

It was only natural for Wall Street analysts to rely on the WGC's market definition for gold as being primarily

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jewelry. (The Wall Street analysts who cover the gold industry are mostly miners, or folks educated in mining, with accounting and business degrees. They are not heedful about the monetary issues relating to gold.) The market definition for gold was wrong. Today, now that an investment in gold made twenty years ago is *down* almost 99% relative to the S&P, gold producers—and their shareholders—are paying the price for this misread of the primary market for gold.

Jewelry manufactures want the gold price to decrease

For jewelry manufacturers, gold is a cost of doing business. As with all business costs, jewelry manufacturers seek to minimize them. This makes sense if one realizes that jewelry manufacturers make their profit from their value added, specifically design, workmanship, and distribution. As the price of gold increases, there is price resistance from potential customers, and jewelry sales and profits decrease. This is confirmed by the empirical data.

Further, as the gold price increases, jewelry manufacturers lessen their dependence on gold. Mostly, they reduce the purity of the gold they use by mixing it with other metals or by using less gold in their jewelry designs. They accomplish this because they control the distribution channels, and they set the fashions by advertising to the consumer. In America, for example, it is common to see 14-carat jewelry. Given these facts, how can the producers ever expect to increase profits by aligning themselves in any way with jewelry fabricators?

Emphasizing gold-as-jewelry rather than gold-as-money imperils the producers

The gold-as-jewelry strategy has helped to reposition gold from being, as the American Federation of Labor put it in 1896, "The standard of every great civilization" to, in the words of *The Economist*, "the spent fuel of an obsolete monetary system." This strategy has gone a long way to diminishing gold's perceived utility and, with it, the fortunes of the gold producers.

Perhaps even more significant, the attempt to reposition gold away from gold-as-money to jewelry has made the producers vulnerable to the claim of environmentalists who argue that the producers are "raping the earth" to get something out that we already have too much and don't really need that much of in any event. It is conceivable that the industry could be shut down based on environmental concerns. (There are already calls, although faint, for closing the mines.)

With the increase in gold production and official sector selling, where would the producers be had they not promoted gold-as-jewelry?

For openers, those producers who supported the gold-as-jewelry strategy would be $800 million (the amount they spent promoting gold-as-jewelry) plus the time value of the money, a sum exceeding $1.2 billion, to the good. That would not be an inconsequential amount on their aggregate balance sheets. More important, had the industry not worked to reposition gold-as-jewelry, then perhaps younger people would have been more amenable to the age-old notion of gold as money. This is vital because there is a continuing demographic shift in the ownership of gold. Older people, who are the major owners of non-high-workmanship gold and who are mindful of the monetary issues, are passing on.

Their heirs, not knowing about the monetary issues, but being influenced by the repositioning of gold-as-jewelry, are selling off inherited gold to participate in other investment vehicles, such as equities. A shrinking audience of other older people is purchasing this gold. Thus, absent gold-as-jewelry promotion, perhaps more gold would have been saved by the younger generation in anticipation of it being put to its higher-value use—gold-as-money—and the gold price would be substantially higher.

Finally, there is evidence that, as gold became cheaper, perhaps due to increased production and/or to official sector selling, more gold would have been fabricated into jewelry *without any* involvement by the producers. Consider:

Year	Gold Price (US$)	Jewelry Offtake (Tonnes)	Increase in Jewelry Offtake (Tonnes)	% Increase in Jewelry Offtake (Tonnes)
1975	**161**	**523**		
1976	**125**	**935**	**412**	**79%**
1977	148	1,003		
1978	193	1,008		
1979	307	738		
1980	**613**	**513**		
1981	**460**	**780**	**267**	**52%**
1982	376	920		

Table 1: Jewelry offtake in tonnes and corresponding yearly average price in US$ for years 1975 – 1982. Data sources: Jewelry offtake from Gold Fields Mineral Services; Gold Price data from Kitco www.kitco.com.

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When the price of gold dropped from $161 per ounce in 1975 to $125 per ounce in 1976, a decrease of 22%, jewelry offtake increased from 523 tonnes to 935 tonnes, an increase of 79%. Similarly, when the price of gold dropped from $613 per ounce in 1980 to $460 per ounce in 1981, a decrease of 25%, jewelry offtake increased from 513 tonnes to 780 tonnes, an increase of 52%. The important point is that in 1975 and in 1981 there were no industry-wide producer programs to promote jewelry. Yet, there were very sizable increases in jewelry offtake.

Given this evidence, along with the persistent and high negative correlation between the gold price and jewelry offtake, what is the justification for the producers spending large amounts of money—or any money—promoting jewelry? The historical data show that the lower the gold price, then the higher the demand for gold jewelry. *Gold jewelry sells itself when the price of gold is low.*

Is the diamond and platinum strategy relevant for gold?

It has been suggested that the industry explore and possibly emulate a marketing strategy similar to that for diamonds and platinum. However, unlike gold, diamonds are not a commodity. The diamond strategy cannot be used for gold. Diamonds maintain their value primarily because of the DeBeers Diamond Cartel. Is anyone suggesting that the gold producers form a cartel? That is not possible.

Furthermore, diamonds are more akin to works of art. Each one is different and must be examined under a jeweler's loop for imperfections. The workmanship that goes into cutting diamonds adds significantly to their value. Also, there are no central banks with a huge stash of diamonds threatening to dump them onto the market.

As to platinum, it is mostly an industrial metal used as a catalyst in chemical processes. Unlike gold, platinum is *consumed*. According to Mr. Aran Murphy of the Platinum Guild, there is roughly six months' production supply of platinum above ground. Gold, on the other hand, has more than fifty years' production supply above ground.

The reason for the disparity is that a principal use of gold is to facilitate the transfer of wealth over time, i.e., to be used as money to provide for future payment. The large above ground inventory provides stability, i.e., supply disruptions or new finds will not appreciably alter pricing arrangements in terms of gold. The same cannot be said for platinum.

Promoting gold as an "investment"

Aside from the fact that an "investment" in gold made twenty years ago is *down* 99% relative to the S&P, which knocks gold off virtually everyone's radar screen, what does an "investment" in gold mean? The concept of "investment" implies some value added. But there is no value added possible in owning gold. Therefore, "investment" is an inappropriate term.

Purchasing gold is really a "speculation," i.e., a bet. When one allocates funds to gold, what is the nature of the speculation? For other commodities, the bet is based on one's assessment of supply/demand fundamentals. This kind of assessment does not apply to gold for this reason. Gold is the only commodity, with a minor exception being silver, and the amount of silver in the world is immaterial in the scheme of things, for which there is more than a year's production supply above ground. In the case of gold, there is about a *fifty-year* supply above ground. As a result, gold is relatively unaffected by disruptions in new supply. Demand, on the other hand, is potentially infinite. Thus, there is no viable bet based on supply/demand fundamentals.

Accordingly, the only feasible bet one is making when one takes a position in gold is a bet against currencies. So, lack of "investment" in gold really means a lack of speculation against a currency, and to foster "investment" in gold means to foster speculation against currencies. This rationale has the added virtue of explaining the otherwise inexplicable constraint in the IMF Articles of Agreement that prohibit member countries from linking their currencies to gold. They want to protect fiat-funny-money from its strongest competition: gold.

As an aside, this rationale is confirmed by one of the most knowledgeable observers of central banks, Mr. Robert Pringle, former Editor-in-chief of *The Banker*, an industry trade publication, and the co-author with Marjorie Deane of *The Central Banks*, now the Corporate Director of the WGC's Public Policy & Research. In a recent speech, he said:

> "The IMF's Articles of Agreement need to be changed to allow countries to peg their currencies to gold. It is ridiculous that the IMF's article (sic) allow countries to fix the value of their currencies to anything except gold—the one true reference point. Do you know the reason for this prohibition? It is the US fear of gold as a competitor to the dollar."[3]

Does "marketing" gold make sense?

Perhaps the producers might reconsider the notion of "marketing" gold. The industry trade association, the WGC, sees itself as a marketing organization dedicated to developing new markets and increasing demand for gold, primarily by promoting gold jewelry. That kind of mission statement might make sense for a manufacturer that can set the price of its product, but the producers have no control over the price of gold. What's more, how does one "market" money, which is the *only* use for gold that can be profitable for the producers?

There needs to be more emphasis, in my view, on what will increase the *price* of gold. What good is increased demand at lower and lower prices? What good are new markets that are unprofitable to the producers? One is

reminded of the manufacturer who loses money on every unit sold but hopes to make up the loss by increasing his volume.

More credibility should be given to what are commonly, and derogatively, known as gold bugs. They are the chief promoters of gold. They even *own* gold! It is relevant that those engaged to tell gold's story do so with conviction. Owning gold shows a measure of conviction about the efficacy of one's strategy for improving the fortunes of the gold industry. As the marketing people at IBM say, you want your people to eat their own dog food. If they don't do that, why believe that they will get anyone else to eat it?

Gold "consumption" is an illusion

Soybeans are consumed. So is oil, platinum, and, except for some silver, so is every other commodity. Excluding immaterial amounts that are consumed by dental fillings and electrical contacts, gold is *transformed*. There are some who believe that gold fabricated into jewelry is permanently off the market. Confronted with South Koreans and others throwing their jewelry into the melting pot, some say that these folks are culturally inclined to do something that folks in the West will not do. This is not correct.

I recall in the early 1980s, when the price of gold soared to $800+, candy stores, smoke shops, and scores of others put up signs announcing that they were buying "scrap gold," i.e., low-workmanship jewelry. I bought some of that jewelry: charms, rings, and a Waltham watch—for less than the melt value of the gold. There were even folks selling correspondence courses on how to buy scrap gold! Further, as the WGC's Robert Pringle points out, "the vast proportion of jewelry (sic) purchased is acquired partly—or even primarily—as an investment and store of value,"[3] not as fashion jewelry to be saved forever. So, all things considered, most newly-produced gold is *not* consumed, and almost all of the gold ever produced can be thought of as current supply.

If you don't know where you're going, stop

The course of action that the industry has taken is not producing meaningful profits for the producers. I don't know what the metaphor is in the gold mining industry for what in the oil industry is called a "dry well." On the evidence, the attempt to reposition gold-as-jewelry is a dry well. Consideration should be given to abandoning any connection with the jewelry industry. One could also make the case that the producers have been *snookered*.

The role of hedging

One of life's most profound lessons is that a novice cannot beat an expert at his game. This is true in every sport, game and business. Every profession has its own vocabulary, sometimes called *jargon*. Jargon is used for two reasons. First, there are special needs that the vernacular doesn't fill; and second, industry participants do not want to share knowledge with laymen. Otherwise, there might be competition from others, and profit margins would decrease. For example, doctors have their own language as do physicists, molecular biologists, and, of course, financial people.

In the case of the banking sector, the jargon is so thick, and there is so much misinformation, bankers have completely disguised what they are doing from laymen. As famed economist John Kenneth Galbraith confirms:

> "The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it."[4]

Have you heard the phrase "I ripped his face off?" That's trader talk for "I beat my customer at a trade." That's how traders think of their customers—rubes to be taken. There is a saying in poker that if you look around the table and cannot figure out who the sucker is, you're it.

Now, when it comes to hedging or trading derivatives, which is the expert: Goldman Sachs or Cambior; or Ashanti; or Newmont; or anyone else? The folks at Goldman Sachs don't provide a product or service in the traditional sense. Mostly, they run financial games. Does it make sense to think that mining people are going to beat financial people at their game? Oh, I see, gold producers hire financial people too so they can compete. Please know that the Goldman Sachs boys are world class, and not for no good reason.

Can the producers and the central bankers play nicely with one another?

In a word, *No!* As pointed out by Rothbard, Pringle, Soros, and especially this writer, their interests are in irreconcilable conflict. It is a fact that central banks' paper-fiat-funny-money is in competition with gold-as-money. They cannot coexist. While gold-as-money has always been—and would be again—the choice of free markets and free people, the central bankers are winning the competition because of coercion, misrepresentation, and nondisclosure. (Mindful that central banks rightfully regard gold as a mortal enemy—for strategic reasons there is no reason for them to announce their position—is lobbying central banks something that can help the producers?)

Meanwhile, the producers are not fighting back. They don't seem to realize they are in a fight, which is one reason why they have gotten beat up so badly. The central bankers of the world, and the banking systems that they represent, have gone all out to denigrate and destroy gold and the gold producers. They are succeeding. If the producers are reluctant to take on the central banks themselves, why not empower others to do it?

With nearly 33,000 tonnes of gold, central banks have been selling gold into a falling market—sometimes announcing before the fact that they are going to sell—and "leasing" gold at below-market rates to favored parties

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who then garner profits by participating in what is known as the "gold carry trade."

In essence, gold is "leased" from central banks at a very low rate, sold into the market, and then the proceeds are "invested" in securities that yield a substantially higher rate than that paid to "lease" the gold. The interest rate spread is profit to those participating. Some have suggested that central banks lease gold in order to garner income from what is otherwise considered to be a "sterile" asset. But, if current income is their goal, why don't they engage in the gold carry trade themselves? Why allow others, who are less credit-worthy, to collect most of the profits?

For profits from the gold carry trade to continue, it is essential that the gold price does not increase. If the gold price increases, not only would profits from the gold carry trade disappear, but there would also be the possibility of default—along with concomitant embarrassment—on the gold loans. Does it make sense to think that the central banks would like to avoid that embarrassment? Who are the gold carry trade participants? What are their connections with politicians? With banks? With central banks? (Recall that Long Term Capital Management had central bank "partners.")

A key question that no one seems to want to ask is: how did the central banks acquire so much gold to begin with? In three words, *they stole it!* People had "deposited" their gold in banks and had received certificates in exchange that bore the legend "payable to the bearer on demand in gold." Then, the banking systems of the world defaulted on that promise, and they kept the gold for their own accounts. Now, having dishonestly acquired so much gold, central banks are using it in a way that is highly detrimental to the producers. There is no other industry where such behavior would be tolerated.

Gold "reserve" gobbledygook

Central banks, especially the European Central Bank, have given a great deal of press about keeping some of their "reserves" in gold. What are they talking about? In the case of paper-fiat-funny-money monetary regimes, what is the significance of gold "reserves?"

The concept of "reserves" originated from the banking practice whereby banks loaned bank notes—which were in law promissory notes—that were redeemable in gold on demand but for which gold was not on hand. The jargon for this practice is "fractional reserve lending."

Having been sanctioned—improperly, in my view—by the authorities to do this, the principal issue then became: how much gold should banks keep in "reserve" in case someone wanted to redeem? Throughout most of the 19th Century, the rule of thumb was that bank notes should be "backed" by 40% in gold reserves. The idea was that it was very unlikely that more than 40% of banknotes outstanding would ever be called for redemption.

Nevertheless, when the public perceived, rightly or wrongly, that banks might not be able to redeem, perhaps because those to whom they lent their bank notes lost the money or because the money was tied up in illiquid investments, such as real estate, that could not be easily and efficiently converted into gold, there would be bank runs, also called "bank panics."

The principal purpose of central banks, especially the Federal Reserve, was to centralize reserves so that banks with temporary gold shortages could borrow gold by putting up collateral. This would allow banks to make good to their creditors, a.k.a. "depositors." By centralizing reserves, the amount of reserves could be reduced, which would allow banks to loan out more banknotes, thereby increasing their profits, and would also provide greater stability to the banking system. But, if there is no possibility of redemption, as exists today, what is the purpose of having *any* gold reserves?

The answer is that even though knowledgeable people understand that there is no longer *any* link between their money and gold, most people are comforted by the thought that there is something "backing up" the currency, even though there is nothing whatsoever. Because central banks own some gold, they are able to maintain the *fantasy* that their paper-fiat-funny-money has some substance behind it. What do you suppose would be the reaction of the public if folks were made to understand how money is created—in reality out of thin air by banks—and that central bank gold ownership is nothing more than a smokescreen?

How can the WGC best help the producers?

An area where the WGC has been operating that has been—and could be much more—useful to the producers is in helping to get rid of laws/regulations/barriers that inhibit the free use of gold. Foremost among these are the legal tender laws, a.k.a. "forced tender" laws, in all countries. These laws compel people to use the official fiat "funny" money of their respective countries as money as opposed to a much more efficient money—gold. The legal tender laws bring Gresham's Law into play: when bad money is made legal tender, good money goes into hiding, i.e., it does not circulate.

Second, as Robert Pringle points out, it is of the utmost importance to get rid of the restriction that the IMF has placed in its Articles of Agreement that prohibit member countries from linking their currencies to gold.

Third, there are myriad laws that make it disadvantageous to own or trade gold. For example, in the U.S., if a mutual fund were to earn more than 10% of its profits by trading/holding gold, then it would lose important tax advantages. Partially as a result, U.S. mutual funds hold their liquidity in U.S. "dollars" or other currencies. Given the large market that such funds represent, it would be potentially significant if these laws could be changed.

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Resurrection

Here are some actions gold producers can take that will revive their industry:

- Finance operations by issuing gold-backed bonds. Not bonds pegged to the price of gold, as was done by Freeport McMoran, but bonds in which the interest and redemption are payable in gold. This will benefit the producers by not only supplying them with funds at a much lower rate than conventional financing, but it will also create an additional demand for gold, both when interest is paid and when the bonds are redeemed. More importantly, it will demonstrate to others that gold financing can be accomplished at significantly lower interest rates than conventional financing, and will likely result in additional offerings, which would stimulate still additional demand. (In that regard, it would be most helpful if the Republic of South Africa, or its state-owned companies such as Eskom, were to issue gold-backed bonds, and for the same reasons.);
- Give shareholders an option to receive dividends in gold coins. Perhaps an arrangement could be worked out with the Royal Mint of Canada or others to supply the coins. Again, this would help to increase demand for gold and, at the same time, get a form of monetary gold more widely dispersed;
- Give employees and suppliers the option of payment (or partial payment) in gold coins. Again, there would need to be an arrangement with one of the mints to handle the logistics;
- Help educate their shareholders, employees, and suppliers about the benefits of gold-as-money and the pitfalls of fiat money;
- Work with and support organizations that seek to restore honest monetary weights and measures. This is the way to build a constituency that will support and lobby for gold-as-money. This is crucially important if the industry is going to develop critical mass to motivate politicians to reform the monetary system, which is the ultimate salvation for the producers. During the last ninety years, those who oppose gold and who are in favor of fiat money have spent untold amounts promoting their point of view. For the producers to have success, the benefits of gold-as-money and the perils of fiat money must be put forth.

At the end of the day, to revive the fortunes of the gold producers it is necessary and sufficient to restore gold as the choice of free markets and free people all over the world as money that doesn't depreciate at home or abroad; as money that is as steady as the stars; as money that is as faithful as the tides, or, as the American Federation of Labor put it at the turn of the century: "Gold is the standard of every great civilization!"

That is the salvation of the gold mining industry: gold as the standard of every great civilization!

End Notes

1. Parks, Lawrence M.; "The Fight for Honest Monetary Weights and Measures" – Palisades Press, New Jersey, 2000; also available at www.FAME.org.

2. See: "Closed for the Holiday: The Bank Holiday of 1933" —Federal Reserve Bank of Boston, p20.

3. Pringle, Robert "The Official Sector: Building on the Washington Agreement" – World Gold Council 14th Annual Meeting.

4. Galbraith, John Kenneth; *Money: Whence it came, where it went* – Penguin Books 1975, p15.

Larry Parks is Executive Director of the Foundation for the Advancement of Monetary Education, (FAME); 211 East 43rd Street, New York, NY 10017; www.fame.org; Email: Lparks@FAME.org

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FAME
Foundation for the Advancement of Monetary Education, 501(c)(3)
Box 625, FDR Station, New York, N Y 10150-0625
Phone (212) 818-1206 • Fax (212) 754-6543
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