Gold by Alice Roth

IMF bows to remonetization

The U.S. Treasury may also have to rethink its $42-an-ounce reserve valuation policy.

One little-noticed result of last week's International Monetary Fund conference is that the IMF probably will never auction another ounce of its gold again. In remarks to the press at the conclusion of the IMF meeting, managing director Jacques de Larosière noted that the IMF had not changed its decision, adopted at Hamburg earlier this year, not to resume public gold auctions. It would be wrong to use the word "forever" in characterizing this decision, de Larosière stated, since this would give more importance to gold than the Fund is prepared to do.

Despite de Larosière's negativism, the existence of the IMF's 100 million ounce gold stockpile—worth $70 billion at current market prices—is viewed by private bankers as the most important item on the plus side of the IMF's balance sheet. If the IMF is to borrow $5-$8 billion next year on the private capital market—a necessity if the Fund is to assume a major role in refinancing Third World countries' debts and avert a potentially severe banking crisis—it will need its gold to establish itself as a credit risk.

This subtle, yet substantial, shift in the IMF's policy on gold is only one of many indications of a quiet remonetization of gold that has occurred in recent months. In my last column, I reported a growing usage of gold by Third World countries as collateral for bank loans. And, in its October issue, *Euromoney* reports that "there has been a major, but largely unspoken change in policy at the United States Treasury. America now looks upon its stock of 260 million ounces of gold as a stock of money, not as a weapon to be deployed for political reasons."

"I would not be surprised if more countries were using gold as collateral," stated David Potts, the senior gold analyst for Consolidated Gold Fields, a London-based mining finance house with substantial holdings in South African gold mines. Potts concurred that a "gradual remonetization" of gold is taking place.

"The U.S. is getting left behind by valuing its gold at $42 an ounce," he noted. This could lead to a rethinking of U.S. policy, although, he added, "the U.S. doesn't have to rush into its decision." Like other British analysts, Potts expects a gradual expansion in gold's use as a monetary asset, which will stop short of full remonetization. "People often get confused between gold playing *a* role and its playing a 100 percent role."

Potts also views the proposed European Monetary Fund (EMF), including its possible use of gold to facilitate petrodollar recycling to Third World countries, as an "objective which is worth studying." "Will it help world trade? Will it result in real development?" In Potts's view, a positive answer to these questions is the litmus test that will decide whether the EMF's mobilization of European central banks' gold reserves is beneficial.

Potts, however, was insistent that the EMF should not be viewed as promoting a "schism" between Western Europe and the United States. "The IMF could look at the EMF as a rival. But the IMF could also look at it as a subsidiary."

As *EIR* has documented, the European Montary System began as a Franco-German project to replace the IMF and World Bank with a new institution that would make gold-backed credits available for Third World industrial development but would not be subject to the IMF's stringent conditions. This view of the EMS was staunchly opposed by the British government and leading London bankers, and Britain has yet to become a full EMS member even with its present limited form. Potts' remarks, however, are typical of a certain British faction.

Concerning the price outlook for gold, Potts says he is becoming "more confident" that we have seen the last of gold's bottoming out relative to the $850 an ounce peak reached earlier this year. The next rise in the gold price could lead to a "topping out" around $750. Gold could eventually go past $1,000, he said, depending on a big return of speculative investment demand. This surge in investment demand has not yet materialized, despite the Middle East turmoil, because Arab investors seem to feel they have "sufficient stocks" and, with the historically high level of international interest rates, other instruments are for now more attractive.