Gold by Montresor

Notes on gold and the black economy

The price is rising as gold replaces the dollar as the instrument of Latin America's underground economy.

It may or may not be significant that the gold price jumped up (to $387) April 19 at the same time that other hedges against the U.S. dollar, i.e., other major currencies, declined. Given the Russian penchant for earning foreign exchange by playing physical metal against options and futures, $10 movements in the gold price are practically meaningless.

It has nonetheless appeared to be true for more than a year that there exist gold purchasers who will buy whenever the price reaches the $360-$380 range, regardless of what else has happened. I have attributed this support to European financial interests who believe that this price is a good one at which to accumulate physical metal.

Now, the $300 billion of underground world trade has become a major factor.

Last week I cited the case of Colombian government gold purchases at the Colombian peso equivalent of $494 per ounce, as an indication that the underground economy had moved strongly into gold.

In the meantime, the government's program has become a source of merry contention inside Colombia. The Ministry of Mines and Energy reported that, during the month of March, the production of Colombian mines rose by 30%, a physical improbability. It is generally assumed that the increment of gold represents proceeds of the *narcotraficantes* brought in from adjacent Panama, one center for untraceable funds.

The Colombian Association of Jewelers, alarmed at the rise in gold prices, i.e., their own production costs, has denounced the gold-smugglers for driving up the local (Colombian peso) gold price.

This pattern is recognizeable from the old gold-narcotics-armaments triad in Western and Eastern Asia; the news is that it has spread into Latin America.

The standard work on the subject, *Dope, Inc.*, cites a consultant to Consolidated Gold Fields of South Africa as follows:

"It may indeed sound romantic, but it is a fact that both in 1970 and in 1971 at least 500 tons of gold—that is to say half of all South Africa's production, or 40% of total gold production in the non-communist world—passed through unofficial channels on its way to its ultimate destination.

". . .these unofficial channels usually start in gold markets such as Beirut, Dubai, Vientiane, Hong Kong, and Singapore, which I am discussing today. Their chief role—their raison d'être—is as distribution centers for smuggling; they are entrepôts convenient to nations, which . . . forbid the official import of gold for commercial or hoarding uses."

With the legalization of the Hong Kong gold traffic and the end of the Vietnam war, much of the Asian underground traffic surfaced.

The eruption of gold as an underground economy instrument in Latin America reflects a variety of circumstances. Not least of these is the present banking danger to the Caribbean. Another is the Treasury's slow-moving intention to replace certain currency denominations with new, hard-to-counterfeit varieties; since a great deal of "savings" in the underground economy, especially in highly inflationary Latin American economies, are held in the form of American $100 bills, it is not surprising that the operators would move out of physical dollars into physical gold. Certain newsletter writers have asked why the Treasury announced this change in advance (in *Barron's* magazine Feb. 4) rather than springing the operation on the public, in order to trap narcotics traffickers.

The reasonable nature of this question is underscored by the fact that the self-professed adviser to the underground economy, Dr. Franz Pick of New York, made the strongest efforts over the past two years to issue warnings of such a change in currency—spuriously claiming that the American currency would be devalued by the change in the appearance of bills. Dr. Pick associates not merely with the former "Black Pope," Father Arrupe of the Jesuit order, itself a major source of underground funds in Latin America, but also with some of the world's biggest gold smugglers, e.g., Edmund Safra of Switzerland and Henry Jarecki of New York. According to *Institutional Investor* magazine, "Part of the stigma attached to Safra's Trade Development Bank stemmed from the bank's gold-dealing activities . . . the ways that TDB allegedly got hold of the metal were regarded as somewhat suspect. Large amounts of it were said to have been spirited out of Africa, particularly Nigeria; one former Republic National Bank [another Safra institution] executive remarks that 'The first time I ever saw a gold vest was in TDB in Geneva' [the vest, worn around the body, can be used to transport gold ingots surreptitiously]."