Gold by Alice Roth

Collateralized loans part of system

Even while bankers and financial officials attack gold, they admit it is being remonetized.

Philippines Minister of Finance Cesar Virata warned bankers and economists attending the Group of 30's international monetary conference this week that increased use of gold constituted an underlying threat to monetary stability. "Production of gold," Virata stated during the opening dinner address of the Philadelphia event, "is in five countries. We shouldn't be dependent" on these nations for our monetary resources.

At the same time, Virata then suggested that "a gold element" be added to the currency basket which makes up the valuation of Special Drawing Rights, the fiat currency issued by the International Monetary Fund.

Is there a contradiction in Virata's apparent warnings of the strategic instabilities that may result from monetizing gold, and his apparent support of keeping gold in the system?

In recent months, the Philippines has been in the forefront of developing countries which have acquired gold through their central banks to stock up their reserve position as the value of gold rises. The Philippines has also been prominent among countries which have since "doubled" the effective value of these gold holdings by acquiring currency loans using their gold as collateral.

During 1979, gold purchases by Third World countries contributed substantially to a stocking up of reserve positions, which are now being gradually drawn down. As *EIR* reported in October, evidence suggests that the volume of loans issued against gold as collateral has risen quite rapidly. We pointed out that around August, the Federal Reserve had changed a long-term policy of reporting gold transfers from foreign accounts to New York banks as "gold imports," and that this was probably done to provide greater confidentiality to a growing number of foreign customers accruing loans against temporary gold transfers.

It should also be expected that such collateralized loans will continue to be an important feature of international monetary relations. During 1980, the stockup of Third World nations' reserves contributed to warding off debt repayment crunches which otherwise would have led to an increase in the already rising numbers of reschedulings.

During the recent monetary conference, David Lomax, group economic adviser for National Westminster Bank in London, explained why traditional opponents of gold are pulling in their horns in their objections to monetization. "Events have overtaken the [monetary] system," Lomax stated in answer to a question on the emerging role of gold. "Gold is being remonetized to a certain extent behind the ECU," the European unit of account used to perform transactions in the European Monetary System. Then Lomax added, "gold is becoming important in assessing countries' credit-worthiness," a highly unusual admission from a British banker, considering that the London financial community has also published reams of attacks against the "barbaric metal" in recent months.

The London financial community is being pragmatic. Continuing heavy purchases of gold by Arab and other central banks has created a climate where major banks would be slitting their own throats not to jump on a gold bandwagon periodically in designing their own operations.

For example, William Hood, a top researcher from the International Monetary Fund, which officially has opposed gold remonetization, had the following to say in answer to a question on gold's increasing use, during the conference: "I would say that gold is a pretty valuable asset." When he was asked to elaborate, Hood shook his head and sat down.

The integration of gold into global monetary relations was shown again this week. Despite rising U.S. interest rates, which put a heavy burden on investors who borrow dollars to purchase gold, the price of the metal rebounded Nov. 19 to its Nov. 6 levels. As gold rose $9 to $628.24 in one day on the London market, dealers attributed the rebound to heavy Middle East buying through Switzerland, and an overall bullish stance toward the metal based on the weakening of Eurodollar interest rates, which are now sitting below the U.S. prime rate. In New York, gold rose even more precipitously, with a $12 gain in one day to $630.