

## Stampedes Into Gold

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In a cloud of dollar dust, India trumpets an exodus from the greenback. By Robert Morley

Two hundred metric tons of gold—the largest gold purchase in history. Think 44 Asian elephants. The buyer's motive was clear: to get away from the dollar. But why did America's leaders give the okay for the IMF to sell America's gold?

Late last month the Central Bank of India bought 200 metric tons of gold from the International Monetary Fund. It is the biggest signal yet that Asian countries are moving away from the dollar, the Financial Times inferred. As he swapped his country's dollars for hard assets, India's finance minister was blunt: The economies of the U.S. and Europe have "collapsed." India was doing what it could to prepare for the coming meltdown.

As the news hit the market in the middle of last week, currency and commodity traders thundered into action. Demand for the yellow metal surged as investors wondered if central banks from China, Europe and elsewhere would follow suit. Which would be the next central bank to trample the greenback? As traders speculated, the price for a single ounce of the precious metal blew past all previous records and hit above \$1,100.

The real importance is this: When gold soars, the dollar is usually getting pulverized.

Since the collapse of the Bretton Woods monetary agreement, the world has conducted its trade and paid its bills in dollars—not gold. This decision was largely based upon the fact that America had a strong economy, was a major creditor nation with low debts, and that America had a reputation for fighting inflation and defending the dollar's value.

For years, this experiment worked out well. Having the world's reserve currency meant that the world needed to hold dollars to conduct trade. Knowing this, foreign governments stocked up on dollars, holding them in reserve against economic downturns and saving them for future spending.

All this foreign demand for dollars worked well for America too—at least at first. The extra demand pushed up the value of the dollar. This made foreign imports less expensive. Flush with extra purchasing power, U.S. consumers embarked upon the greatest multi-decade spending binge ever—purchasing everything from Japanese and German automobiles to Indian steel to Chinese clothing and electronics. Standards of living surged.

The U.S. government liked this arrangement too. Whenever the economy slowed down, or the government needed a little more money, it just printed up some more dollars or issued a few more treasury bonds. The world's dollar demand sopped up the extra money, so America didn't have to deal with the ugly dollar-printing-means-ballooning-debt side effects, including the soaring inflation and rising interest rates that would normally result.

Yet all wasn't well. As America encouraged the world to collect dollars (the new reserve currency) and dump gold (the old reserve currency), an unforeseen, dramatic reaction occurred.

Foreign importers began to replace American industry. U.S. manufacturers were forced out of business or relocated overseas. The U.S. economy radically changed. America rapidly evolved from a production-focused economy into a consumption-focused economy. It went from the world's creditor nation to the world's largest debtor nation. And, over just the past decade, its currency—the dollar—lost one third of its value.

“The dollar’s swoon is prompting a bit of revisionist history, putting gold back en vogue,” says Bloomberg’s William Pesek. “It says much about where the global financial system finds itself.”

So now the world is looking for a way out from underneath its piles and piles of depreciating dollars. India’s purchase is “a landmark trade,” said Barclays Capital gold specialist Jonathan Spall. It is “a sign for other central banks and sovereign wealth funds.” The dollar exodus is set in motion.

For the past 38 years, central banks have embraced the U.S. dollar. But the shift is on—and it is going to completely blindside those in Washington.

Many people don’t realize that the gold the IMF sold was actually American. The gold owned by the IMF was contributed by the U.S. and European central banks at the Fund’s establishment. Many times over the last decade, the IMF has sought to sell its gold and spend the money, but Washington consistently vetoed it—that is, until this last year when the current administration gave the go-ahead.

U.S. politicians don’t understand history. During America’s worst time of crisis since the 1930s, as confidence in the dollar is failing, America should be repatriating its gold from the IMF—not selling it.

American politicians may have deluded themselves into believing that the dollar is better than gold, but the world obviously isn’t convinced. Both China and Russia are very vocal about their desire to increase their gold holdings and move away from the U.S. dollar. China and Russia have even indicated their desire for a new world reserve currency. But when America’s allies announce their desire to diversify away from the dollar, America should wake up.

The timing of India’s announcement was very interesting too. During the last two weeks of October, when India was negotiating with the IMF, Russian officials reportedly “leaked” that Russia might, for the first

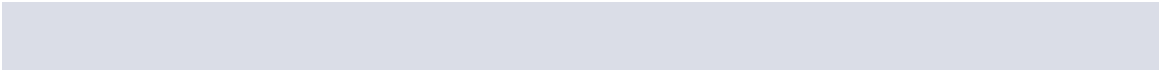
time since the fall of the Soviet Union, sell a large portion of its state gold reserves.

By leaking that it would sell large amounts of gold, Russia helped keep a lid on gold prices just as India was seeking to complete the largest gold purchase in history. What will Russia ask for in return for this favor?

Meanwhile, back at the bank, the IMF has announced it will sell another 200 tons. Will Russia, or China—or Europe—get this chunk of American gold?

India's gold purchase should be a warning to America. Usually Second World nations have to put up their gold as collateral for loans from the First World. Now developing nations are the ones with the gold, and it is America that is relinquishing control.

India now has some mammoth gold reserves. It also has \$6.7 billion less paper money. And it thinks it got a great deal. This bold move is something that shouldn't be ignored. India's stampede into gold is a picture we shouldn't forget. •



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