Pravda

From their lofty perch on top of the journalistic slag heap writers/editors for *The Economist* and sister publication *Financial Times* (*FT*) usually ooze correctness, independence and, sometimes, a trace of condescension. These publications are widely seen as informative and insightful; often one hears a businessman saying "Did you see the article on such and such in the latest *Economist?*" In issue after issue they cover dozens of bits of news and events, usually with a constructive editorial slant. They are not generally seen as anybody's lapdog, or as purveyors of propaganda.

This is why, under this veneer of objectivity, their treatment of gold is so out of character. The coverage has been, and remains, unbalanced, malicious and deliberately misleading. Much as *Pravda* was driven by the views of Uncle Joe Stalin, so the *Economist/FT* appears, when it comes to gold, to be driven by the views of Western financial policymakers.

As a preamble to an *Economist* article on gold last month, look at what they have written in articles of January '93, December '97 and April '04: "Fool's gold." "When Central Banks lose their lust for gold, gold bugs should beware." "Its reputation as a safe haven is tarnished; gold has become just another commodity." "Yellow peril." "For private investors the message is plain: sell." "Death of Gold." "Gold has fallen from grace and is now a mere metal and a bad investment." "Gold is a goner." "Whereas gold used to be seen as a good asset, it is now seen as the bottom of the pile." "Going, going, gold." "The pointlessness of holding bullion continues to sink in." "The barbarous relic, as Keynes called it, is crumbling to dust." "Gold is now a rather risky asset." "The gold price hangs precariously by its own bootstraps." "For private investors to hold gold on this basis is their own foolish affair. For Central Banks and governments to hold it as a reserve asset is a betrayal of the public…" "Gold is on its way out as an investment and a reserve asset. Three cheers."

These pronouncements are not taken out of context and they all beg the question: "Says who?" Why, the editors at the *Economist/FT.*

Since these comments the gold price has roughly tripled and recently, as the price flirted with $1200 and threatened to "break out," the financial establishment again swung into action. We have seen real or threatened IMF sales, perhaps a small European Central Bank sale, a large gold swap (Portugal?) to give the BIS some ammunition with which to lean on the gold market and, of course, another impressive (three pages) missive from the *Economist* trashing gold. The cover headline states "Why gold has probably peaked."

This latest contribution (July 10th 2010) is not as vicious as the earlier ones and the conclusion has been softened from the categorical to the possible: "And investors may look back on the bull run of 2009-10 – or 2009-11 – with the sort of wonder that humanity has too often reserved for the yellow metal itself." Still, the article appears written to conform to a pre-determined conclusion, and all too often conjecture is presented as fact. "Bubble?" How can a serious student look at the share price of Newmont or Anglogold for the past five years and say we are in a gold bubble? "And if prices remain high…" High? Only in the eyes of the *Economist*. For those charged with exploring, building and operating gold mines, prices have not provided realistic returns for years. Global underground gold production peaked in 1971 (that's right, forty years ago) while open pit (open cast) production peaked ten years ago. Canadian gold production is down forty per cent over the past decade and gold is the world's only major commodity where primary supply is in long-term decline.

While the *Economist* acknowledged that production cannot be ramped up "at will," it doesn't mention the real possibility that, with most supply coming from mature mines, production may fall dramatically. Gold has always been scarce; we will soon find out just how scarce.

The *Economist* states "more of the world's existing stock will augment supply." Again, says who? You can only sell scrap once, and there is no law saying someone must sell his Krugers. Western Central Banks, which have sold roughly ten thousand tonnes over the last generation, have now pretty well stopped selling and Eastern Central Banks, the ones with all the money, are buying gold hand over fist. Interestingly, during the last bull run in the 1970s, Central Banks were net sellers in 1972 (at about $40) and net buyers in 1979 (at about $300).

China and other Asian countries are encouraging their citizens to buy gold while the *Economist/FT* encourages readers to sell gold. Who is best serving who? Or is the *Economist/FT* just following its script?

All the West's sales of thousands of tonnes of gold (a blatant attempt to suppress the price) have merely permitted Eastern people and institutions to buy it at low prices. These sales have not demonetized gold, the *Pravda*-style brainwashing has not demonetized gold, a ludicrous monetary system (non-system) in which the ECB advocates tightening while the Fed advocates loosening has not demonetized gold, and chaotic financial markets have not demonetized gold. Just look at how well Italy (which, alone amongst the big Western countries, never sold any gold and still holds a massive position) is weathering the PIIG situation – markets know that gold will soon be worth much more and Italy will therefore be in much better shape.

There may be a parallel between the US in the 1930s (when the US insisted all debtors pay up in gold… that's why they built Fort Knox in 1937 to hold it all) and China's accumulation policy today. It's unlikely China has forgotten former US practices, or the Opium War or a hundred other lessons of history.

The *Economist* gently ridicules the "wonder" which humanity has "too often" reserved for gold. Should this "wonder" instead be reserved for the dollar? Or should the *Economist* note the wonder of the dollar and Sterling, both of which have lost 99% of their purchasing power in the last century, still being reserve currencies?

Even better, perhaps the *Economist* should apply its considerable talents to a thorough overview of the monetary system. It's time, it's past time, to recognize that the dollar (or the Euro) cannot be the world's perpetual reserve currency and to consider taking a leaf from FDR's (or China's or Italy's) playbook.

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