

## Gold Research Analysis

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# Will governments confiscate gold?

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As concerns mount that there is another financial crisis in the offing and the gold price rises, American investors worry increasingly about whether the US government will confiscate their gold. The precedent was set by President Franklin Delano Roosevelt, who in 1933 forced all of America's gold owners to sell their bullion to the Federal government at the official price.

However, the situation today is very different from that of 78 years ago. At that time, gold was the primary currency, the dollar being tied to it at \$20.67 per ounce. But today, the Fed and European central banks strongly deny that gold has any monetary role at all, and argue instead that it's just a hangover from the past: "that barbarous relic" as Keynes called it. Its confiscation would be an embarrassing admission that gold, after all, is money.

Nevertheless, as paper currencies continue to lose credibility, the temptation for any government to seize its citizens' gold to enhance official holdings must be growing. Americans today, however, are unlikely to meekly accept confiscation the way they did under Roosevelt. And nowadays, you may be American, but your gold is not necessarily held at an American bank: it is just as likely to be in London, Zurich or Hong Kong.

The wording of a compulsory order is all-important. Confiscation requires the gold itself to be surrendered, which presumably would be the objective if a government is to add to official holdings. If gold ownership is merely banned, it is a different matter. A bullion bank holding gold in an unallocated account would almost certainly be unable to deliver physical gold if required to do so by the American government, but it would be able to close out the account for cash. And there is the thorny question of derivatives, which hardly existed in the 1930s. All futures and options trading would cease, and contracts for forward delivery would be cancelled, possibly with serious financial consequences.

The international nature of gold would probably require all G10 or even G20 members to agree to similar actions against their own citizens. It seems unlikely that all governments would agree to this, unless they all had their backs hard against the wall. Switzerland, an associate member of the G-10, would almost certainly face a referendum and be unable to comply. The G20 also includes China, India, Saudi Arabia and Russia. It is extremely unlikely that these countries will be prepared to confiscate their citizens' gold to appease the Americans.

Just the mention of these names alerts us to the dangers of a confiscatory move by the US. It would make the Chinese and Indian middle classes instantly wealthier than the average American, measured by gold ownership – an interesting thought when paper currencies are losing credibility. On balance, a repeat of the Roosevelt confiscation seems unlikely. But there is one thing we can be certain of, and that is that the risk of silver confiscation is more remote, so perhaps that is the safer metal to own.

**Tags:** central banks, gold price, sound money, USA

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