

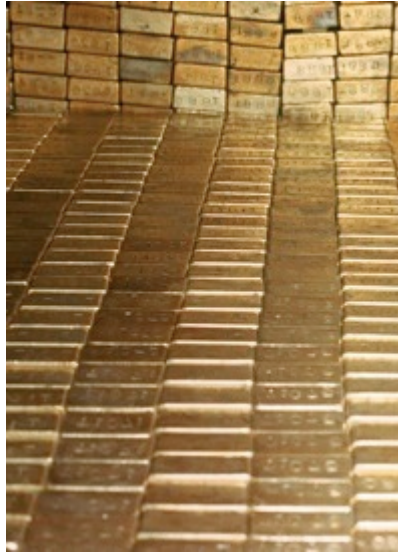


Written by [Steven J. DuBord](#) on November 14, 2009

There's Gold in Them Thar Vaults!

The U.S. federal government possesses the largest stockpile of gold in the world, but even with record high prices, it isn't likely to be selling any. In fact, other countries and global central banks are building up their gold reserves as the dollar's value plummets.

The Treasury Department holds 261.5 million ounces of gold, or about one third of all the gold held by national governments around the world. It is primarily kept in the famed Fort Knox bullion depository in Kentucky, but there are other vaults around the country. The New York Federal Reserve in Manhattan, for example, keeps approximately 25,000 bars in a vault five floors below ground.



Gold is currently trading at around \$1,100 per ounce, and that makes Uncle Sam's treasure trove worth about \$288 billion. Despite this, the federal government shows no inclination to sell it off to raise money.

Curiously, ever since the federal government took our currency off the gold standard, the government has been the primary hoarder of the precious metal. The ability to pay for ever-increasing government spending by simply printing more worthless paper money or creating lines of credit out of thin air, while also getting to keep most of such a valuable commodity for itself, was too strong a temptation for those in power to resist.

As Nathan Lewis, author of [Gold: The Once and Future Money](#), put it: "Gold is gold. There's no real change in gold's value. Only the value of paper currency declines." The corollary is that the more currency in circulation, either in printed form or as lines of credit, the less each individual printed dollar is worth. The true definition of inflation isn't that prices are increasing; it is that the supply of dollars in circulation is increasing, thus diminishing the demand for and value of every single dollar.

Witness foreign nations as their demand for dollars in the form of Treasury securities wanes while their appetite for gold waxes. [CNN said](#) on November 13 that the U.S. government "is trying to finance its economic rescue packages by selling record amounts of debt to foreign countries in the form of Treasury securities. As gold holdings take up a larger percentage of foreign reserves, Treasury holdings could be reduced."

Judy Shelton, an economist who is also the director of the National Endowment for Democracy, believes that currency should be backed by a precious commodity. CNN summarized her words by saying that "the resurgence of gold buying should be unsettling for the government. The trend indicates that some foreign countries would rather hold onto an inert metal than Treasuries that pay interest. Treasuries have long been viewed as a riskless asset, because they are tied to the dollar and are backed by the



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U.S. government.”

“If the trend continues,” Shelton said, “That could reduce the demand for Treasury securities and bonds’ book value would go down.” Thus the U.S. government’s policy of mounting debt is coming home to roost as a decreasing demand for the Treasury securities that used to be seen as a safe investment.

There may be gold in them thar federal vaults, but until that gold is once again backing U.S. currency, American dollars and Treasury securities will be increasingly seen for the fool’s gold they currently are.

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