

GOLD RUSH IN THE "LAND DOWN UNDER"

In early May, Blanchard Chief Economist Lawrence Reed visited Australia. In between several lectures, radio talk shows and newspaper interviews, Reed interviewed leaders of business and government. In this article, he discusses highlights of the Australian gold boom and focusses on one particular mining company of note.

The remarkable boom in Australian gold mining, already in high gear since 1980, may be set for overdrive. Total gold production has risen from 0.7 million ounces eight years ago towards an expected 5 million ounces by 1990. Several recent substantial discoveries may propel production even higher. In any event, Australia should become the world's fourth largest gold producer by the close of the decade, accounting for at least 12 percent of all production.

No doubt about it. There's excitement in the gold fields of Australia, where production costs are already tantalizingly low--the lowest, in fact, among the majors. Thanks in large part to the feasibility of open pit mining methods and the very short time it takes to start production once drilling confirms an orebody, Australian gold is coming to the surface at an average cost of \$179 per ounce. That compares to \$195 in South Africa and over \$200 in Canada and the U.S., according to the brokerage firm of Ord Minnett, Ltd., in Sydney.

All this production doesn't seem to be depressing either metal prices or the spirits of the rugged individualists who so typify the new gold rushers. They are confident that the lows in gold prices are well behind us and that some factors which normally boost the metal --world inflation and industrial demand--are in the process of intensifying. If they're right--and the evidence is growing that they are --that bodes well for gold and gold stocks.

Analysts at Ord Minnett see the metal's price performance as exceptionally "commendable" in recent months, given the increases in supply. Indeed, gold prices worldwide have held up well, even in the immediate aftermath of last fall's global stock collapse. Many Australian mining shares, which collectively fell an average of 61 percent in the '87 crash, have yet to regain all the ground they lost and may represent, some analysts are saying, an excellent buying opportunity.

An emerging success story in the patchwork of Australian producers is Croesus Mining, N.L. Headquartered at Kalgoorlie in the state of Western Australia, Croesus has made a stunning transition from a tiny, private exploring operation to a publicly-listed and profitable producer in under a year. Its fast-track development since going public in July 1986 has now lifted it to the level of a medium-sized gold producer.

The founder and executive chairman of the company is Ron Manners. On the very day, May 13, that I interviewed Manners and met his widely-respected geologist Murray Kornweibel, the company announced a major new discovery. "Croesus Gold Find Its Jackpot," the headline read in the country's major daily newspaper, The Australian.

What makes Manners especially intriguing is his free market, hard money principles. He is a true believer in gold, not just as something to produce and sell, but as a badge of personal liberty, the world's premiere hedge against the follies of paper money and overbearing government. Here are just a few key excerpts from that interview:

REED: Ron, how did your company get its rather unique name?

MANNERS: It's named after the King of ancient Lydia, during whose reign between 560 and 546 B.C. gold and silver coinage was first invented. As we now know, coinage revolutionized trade in the ancient world.

And, most significantly, the civilized world went on to use gold and silver coins as the chosen monies clear up until the time money was completely socialized and converted to unbacked paper in the 20th century.

REED: You've had some rather extraordinary success, haven't you?

MANNERS: Yes, indeed. In the twelve-month period after our public listing in 1986, we went from having raised \$2.5 million in capital to acquiring an operating gold mine for \$20.3 million, complete with new milling and production facilities and an exciting spread of advanced exploration prospects in the Kalgoorlie district.

We mined 25,000 ounces of gold in our first year. We are projecting an increase to 36,000 ounces in this, our second year, and 50,000 next year. We have been profitable right from the beginning. Our initial band of enthusiasts and supporters, small in number, has grown tremendously in numbers and their quality contribution and dedication to the task is catching attention throughout the industry.

REED: What about the new find you just announced? How significant is it?

MANNERS: Very significant! We discovered it near the town of Laverton at our so-called "Jupiter" project. The drilling there was a part of a substantial expansion of Croesus's gold production and exploration in that area. We fully expect it to become our biggest earner by 1990. Our analysts tell us that we can expect to produce 640,000 ounces of gold from it before it's exhausted.

REED: Has the industry as a whole, and Croesus in particular, found capital acquisition to be difficult?

MANNERS: In a nine month period in 1987, a grand total of \$4.1 billion was raised by mining and other resource firms in the Australian securities markets. That's remarkable, and it's a testimony to the confi-

dence many people have in our prospects.

There are some dark clouds, however. The mining industry has successfully fought off some bad tax ideas before, but there's no guarantee we won't be a target for the government again. The full implications of this country's capital gains tax and fringe benefit tax are becoming painfully obvious, too. It wouldn't take much more of that kind of thing to divert the flow of investment dollars away from domestic companies and out of the country.

REED: But isn't it true, Ron, that change is occurring in this country, that intellectually, socialism is dead and ^{that} government is being rolled back?

MANNERS: Yes, to some extent you are right. There are stirrings of a revival of appreciation for free enterprise. Socialism has clearly failed the world over and increasing numbers of people are correctly blaming unions and big government for most of our economic problems. Here in Australia, there has even been some privatization and talk by the government that there will be more. Top tax rates on personal income have actually been brought down.

I've been saying for a long time that what the mining industry needs to do is to take advantage of an emerging pro-enterprise sentiment among young people, recruit and educate them. We need "Black Belt Libertarians"--those skilled and educated in the art of responsible economic self-defense. We need to prepare people to explain how well the world has worked when we've had periods of free enterprise, and how well it can work again if only we can get rid of our socialist shackles.

REED: Projecting ahead, Ron, where do you think gold is going in the next few years?

MANNERS: Up, unless we have some sort of unexpected, deflationary event

in the world economy. That's more than just unexpected, I think; it's very unlikely. I believe that we live in a world of political paper money, whose value over the long haul can only go down. Gold has always been the thing people turn to as protection against that. In spite of the other good signs which are taking place here and around the world with regard to the demise of socialism as an attractive idea, no one is really challenging the government's power over money. Until unbacked paper is swept away and replaced with sound, honest, gold-based money, I'll be bullish on gold. That seems to me to be just basic common sense.