

Gold Confiscation? Juice Not Worth the Squeeze

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Many gold investors worry about government confiscation or expropriation of the metal they own. They often cite the 1933 precedent where, by Executive Order of the President of the United States, Americans were required to turn in any gold coins, bullion or certificates held that were in excess of five ounces. Having worked in the gold sector for many years, I am often asked about this and what I believe might occur in the future. In short, I do not believe that the U.S. government (or that of any Western nation) will repeat such an action today, for several reasons.

Ongoing Promotion of Globalism vs. Nationalism

We see daily how the actions of various governments and central banks around the world threaten our financial freedom. In general terms, anticipating what a government will do is relatively easy. Its primary role is the generation of revenue by taxation and the subsequent redistribution of that wealth. Everything else is secondary – except for the obvious goal of getting re-elected.

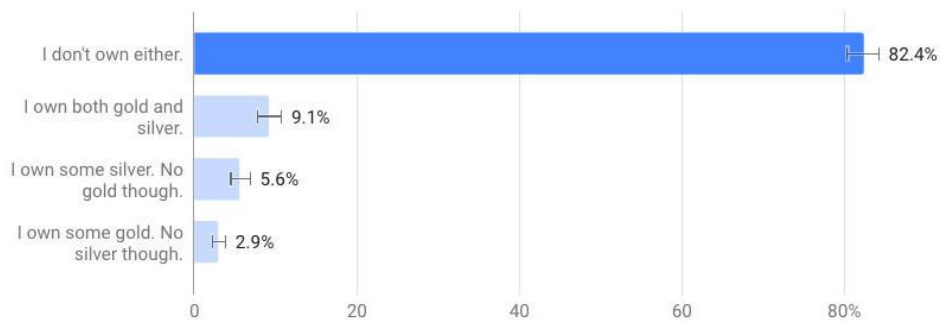
In 1933, America and other Western nations looked very different than they do now. Patriotism ran high, and most US citizens willingly exchanged their gold for US dollars before the Executive Order became law, which was a significant event at that time, as many citizens held a considerable amount of their wealth in gold. Americans wanted to assist their government, and felt it was their patriotic duty to help repair the nation which was suffering from a severe economic depression. The sad situation today is that what used to be called a nation's pride is now negatively referred to as 'nationalism' or 'populism'. Western citizens would therefore be highly unlikely to turn in their hard-earned gold, given the continual erosion of patriotism that we see today through government edicts, speeches and new regulations that downplay loyalty to the state, and promote globalism. Privately held gold would simply remain that – private.

Gold Ownership in Western Nations is Low

According to a 2020 study¹, 82% of Americans do not own any gold beyond a few pieces of jewelry. Therefore, it makes no sense for the government to seize its citizen's gold directly, as there is simply not enough gold in the hands of its citizens to generate enough revenue to justify even the effort of confiscation. In addition, as it is next to impossible to know how much gold citizens hold privately, it would likely be political suicide for the party that dared to discuss expropriating its people's gold. This state of affairs is the same in many Western countries, including Canada, where gold ownership is very similar. A gold 'buy back' scheme, like the government of India has repeatedly tried and failed to accomplish, would likely have similar fruitless results.

¹ <https://www.prnewswire.com/news-releases/new-survey-reveals-10-8-of-the-american-population-owns-gold-while-11-6-owns-silver-301122041.html>

Figure 1: Do You Own Any Gold or Silver (coins/bars)?



Increasing Tax on Gold Production Easier and More Lucrative

There is a far easier way for governments to generate the revenue they require than by seizing people's gold and that is to raise the tax rate on gold producers. At present, many industry experts concur that gold is priced well below its true value. Once we see the gold price more accurately reflect its true value, I believe we will then see governments around the world institute a concurrent increase in the royalty taxes that gold companies must pay to mine this precious metal.

In terms of gold mining, Canada is a juggernaut. 75% of the world's mining companies are headquartered in Canada. Canada ranks 1st in global mining assets, 5th in gold production and 9th in official gold reserves in the ground. Canada has millions of square kilometers of known and unexplored lands that will potentially yield huge profits for all those involved in unlocking that wealth and that includes the government of Canada. From a revenue perspective, the Canadian government stands to gain the most by encouraging prospecting and mining. When gold and other precious metal prices accurately reflect the actual supply and demand fundamentals, we can confidently expect an increase in taxation on these companies. This is a far easier strategy to execute to generate revenue than trying to write a new set of laws to capture all gold and gold derivatives like mining stocks, leases, swaps, loans, ETFs, contracts and mutual funds.

In 2016, the Canadian government sold off the last of its \$3.5B in gold reserves. It was a shock to many in the industry, as it left Canada as the only developed nation in the world that has no gold reserves on its Central Bank's list of official reserves. The reason for this remains crystal clear in my mind. The real wealth for Canada isn't the paltry 77 metric tonnes held in a vault in Ottawa. It is the vast tax revenue to be had by taxing every ounce of metal coming out of the ground.

Figure 2: Canadian Mining Assets (2018)²

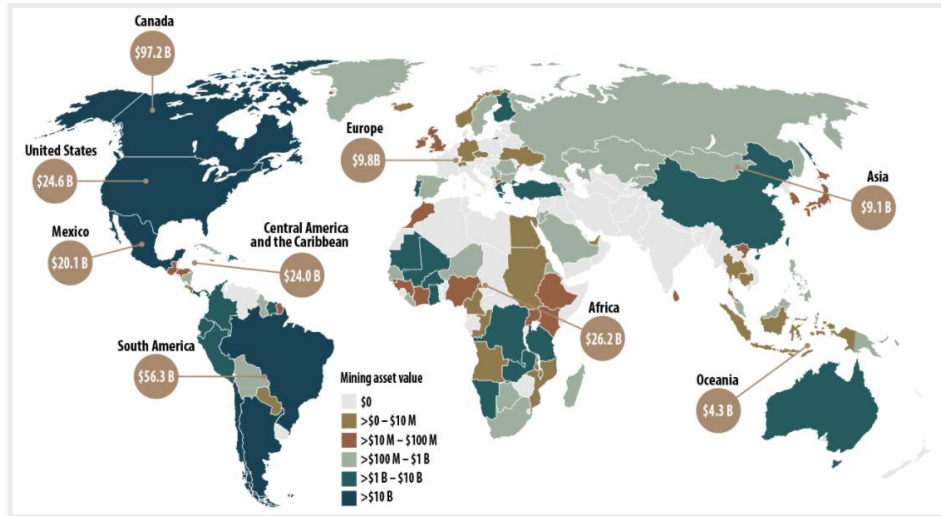


Figure 3: Canadian Mining Assets by Global Region (2017-2018)³

Region	2017 (\$ billions)	2018 (p) (\$ billions)	Variation (\$ billions)	Variation (%)
Africa	25.4	26.2	0.8	3.2
Americas (excluding Canada)	117.7	125	7.3	6.2
Asia	10.1	9.1	-1	-10.2
Europe	9.8	9.8	0	0.3
Oceania	4.4	4.3	0	-0.9
Canadian mining assets abroad	167.4	174.4	7.1	4.2
Canada	93.8	97.2	3.4	3.6
Total Canadian mining assets	261.2	271.6	10.5	4.0

The current royalty taxes that Canada’s mining companies pay is among the lowest in the world. The royalty payments vary across the nation by province, but the average is ~15% of net revenue. With a rising gold price and rising royalty tax rate, Canada (along with many other countries), stands to generate huge revenues. Governments scrambling to remain solvent will simply not allow these companies to make off with huge profits, while their administrations attempt to address a myriad of concerns such as pension shortfalls, infrastructure improvements, rising healthcare, education, military, intelligence, law enforcement, administration, and civil welfare costs. Increasing taxes on corporations would generate large sums of money relatively easily and incur little outrage from the general public.

² nrcan.gc.ca

³ www.statista.com

Public Sentiment and Debt Levels Support Increased Taxation

Canada, like so many Western nations, has a serious debt problem. The current Federal debt stands at \$1.125 trillion and public debt-to-GDP is 116%. The Federal deficit is now \$343 billion and growing rapidly, given the spending policies of the current administration. With the current interest rate of 2.45%, the Canadian government spends more than \$46.5 billion annually on interest payments, just to service its debt. Stated another way, Canada's debt is growing daily by approximately \$500 million - a number that shocks even the most liberal Keynesian economists.

If Canada were to seize the largest physical allocated gold fund in the world (TSE:PHYS/NSE:PHYS.U) which happens to be a \$10.5 billion Canadian-owned security, what would that mean to the public coffers? The impact would be insignificant, as there would only be enough revenue generated to cover 12 weeks of interest payments on its debt. It would make far more sense for Canada to avoid the messy business of compromising its perceived political stability and simply find a fair, tax-based compromise with the companies who are actively extracting the nation's minerals.

The political will is well established these days as it relates to taxing the rich, as well as those companies who are perceived as part of the 'climate change' problem, such as mining companies. Canadian politicians will likely be seen as doing the right thing for Canadians, and for the environment, by making mining companies pay their fair share. They may even institute a Windfall Tax Act, mirroring the IRS Windfall Tax Code that the U.S. instituted in 1980. This code was a direct response to the rising negative public sentiment towards the massive profits generated by energy producers in the 1970s. The Windfall Tax Act was the single largest and most onerous tax law ever written in America, and it remained in place for over a decade, delivering a huge influx of revenue for the federal government.

Juice Not Worth The Squeeze

Realistically, governments seeking to generate revenue have only two options: borrow or tax. Borrowing money adds to the debt and only defers accountability, yet it is generally politically preferable to raising taxes. Raising personal taxes is generally considered political suicide with the voter base, unless the majority of the public are exempt. In the coming years however, governments will want their fair share, and will institute new mining-related tax laws to ensure they get a sizable portion of what is a hugely profitable industry.

The willfull abandonment of sound monetary policy is already causing a strong inflationary environment. Prices will continue to rise. Debt will compound and grow. A solution will need to be found that is both politically palatable and sufficiently adequate to restore the public coffers on an ongoing basis until debt levels normalize while still encouraging global investment into mining. The government would also prefer not to bring too much attention to an asset class that competes with its own currency. They will seek the easiest path to generating revenue and that is through taxation, not confiscation. Governments seizing their citizens gold will not generate the necessary revenue to meet their cashflow needs. The juice simply won't be worth the squeeze.

Sources:

1. [Minerals and the economy \(nrcan.gc.ca\)](https://www.nrcan.gc.ca/minerals-and-metals/factsheets/20514)
2. <https://financesofthenation.ca/2020/10/28/is-canadas-federal-debt-a-cause-for-concern/>
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