## WORLD TRADE

### The LDCs dependent on imports are facing starvation

Already, during the 3rd quarter of 1979, international credit issuances to both the developing and advanced sectors plunged by over 50 percent. Since these credit issuances are used in significant part to finance imports, and since in the case of the Lesser Developed Countries (LDCs) those imports significantly include food imports needed by populations among which malnutrition is already endemic, this credit drop is the more immediately devastating.

The Volcker credit crunch initiated in early October has ushered in an era of systematic mass starvation for the LDCs.

The reality of this matter has not escaped the financial circles who are Volcker's principal base of support; witness the September-October issue of the City of London publication, *International Currency Review* (ICR). One article openly discusses the fact that military force (i.e., NATO) will be necessary to maintain control over the underdeveloped sector under International Monetary Fund-World Bank austerity. The comments come in the context of an ICR review of the World Bank's August-issued World Development Report. ICR blasts the World Bank for concealing its real thoughts under "anodyne phrases." Where the World Bank Report writes "a deterioration in the international situation could trigger inappropriate policy actions," ICR bluntly complains that this "euphemism for military adventures is the closest this report comes to recognizing what its authors must know to be true: that the prospect facing the developing world is far gloomier *than the international financial community is prepared to admit publicly." (emphasis in original—ed.)*

A second article warns "that a repetition of the (1929) disaster may be unavoidable," that "The outlines of the next Great Depression are ... clear," including such likelihoods as the financial destabilization of "a

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## GOLD

### Iran crisis severs gold-oil price link

The world gold price regained the $395 an ounce level last week following unconfirmed reports that the Iranian regime may cutoff oil shipments to the U.S. The gold price could go much higher still should the Iranian crisis worsen.

As we reported last week, the European Monetary System (EMS) governments have sought to protect themselves against rising oil import costs by establishing an unofficial peg between the price of a barrel of oil and gold. Gold would then be approximately a fifteen-fold multiple of the oil price. The EMS countries together control nearly 40 percent of the world's monetary gold.

Prior to the eruption of the Iranian crisis, the gold market had begun to weaken, since many traders were caught offguard by the U.S. Treasury's decision to market 1.25 million ounces of gold on Nov. 1. Some thought that the Treasury's new policy of selling "arbitrary amounts at arbitrary times" was actually an attempt to gracefully retreat from the marketplace. The Treasury received an average price of $372.30 for its gold on Nov. 1, considerably below the mid-October level of over $400.

On Nov. 7, in the midst of the Iranian turmoil, the Internaional Monetary Fund held its regular monthly gold auction of 444,000 ounces. In sharp contrast with the Treasury sale only six days earlier, the IMF auction was oversubscribed by more than four times the amount of gold offered and the average price received was $393.55.

Even if the Iranian crisis is resolved quickly, the gold price is unlikely to fall below $350, because of European and Arab government commitments to remonetize the metal. According to a reliable West German banking source, major Western European central banks purchased gold unofficially earlier this year in an effort to stabilize the price.

—*Alice Roth*



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