Gold by Alice Roth

London's golden bargain

The run-up in gold price reflects a decision on Threadneedle Street to strike a bargain with OPEC over petro-dollars...

Citing Soviet military moves in Afghanistan and rising political instability throughout the Middle East, New York traders ended the 1970s by bidding up the price of gold to a new all-time high of $533 an ounce on New Year's Eve. While Afghanistan provided a convenient excuse for the goldrush, most U.S. analysts failed to grasp the underlying reason for gold's meteoric rise—the decision by top British policy-makers to make gold remonetization a leading feature of their proposed "global economic bargain" between the industrialized countries and OPEC

London is essentially offering the oil producers International Monetary Fund and U.S. gold stocks as collateral in exchange for OPEC's agreement to funnel its petrodollar surplus through the IMF and World Bank. The oil monies will be used to roll-over Third World debts and finance high-priced "alternative energy sources" and extractive industry in the developing sector, a kind of rebirth of the raw materials-based 19th century "Pax Britannica."

Gold's role in this projected world economic reorganization is highlighted by the Brandt Commission in its forthcoming report "North-South: a program for survival." The report, which was written by former British Prime Minister Edward Heath and British Commonwealth Secretary General Shridath Ramphal, proposes that the IMF use its remaining gold stocks as collateral with which to raise more money to lend to developing countries.

On Dec. 24, the *Financial Times* of London also suggested that gold guarantees be offered to OPEC to win control of the petrodollars. In an Op-Ed feature by David Marsh, entitled "Gold: a 'myth' comes back to life," the *Times* speculated that neither a multi-currency reserve system or one based on the IMF's Special Drawing Right would prove acceptable to Middle East investors. The article concluded that: "If they indeed preferred gold to currencies, this raises the intriguing question whether the industrialized countries and the developing world, rather than talking about SDRs, should be discussing possibilities of directly swapping Western gold for OPEC oil."

Following Thatcher's triumphant visit to Washington, London policy-makers are clearly banking on Carter Administration support for their plan to establish a quasi-official gold standard. The U.S. owns the largest government-held gold stock in the world, outside of the Soviet Union, and the U.S., Britain, and the IMF together control about 400 million ounces, approximately equal to the gold stockpile of the European Monetary System members. Led by France's Giscard d'Estaing and West Germany's Helmut Schmidt, the EMS countries took steps to remonetize European gold reserves early in 1979, but had planned to use gold-backed liquidity to fund capital-intensive, high-technology Third World development—just the opposite of what the Brandt Commission now envisions.

The Europeans have since shrunk back from these bold plans, and the British calculate that the lure of an Anglo-American-backed "gold standard" should be enough to win OPEC over to their side. In the same Op-Ed noted above, the *Times* hinted that the U.S. Treasury is about to drop its nine-year vendetta against gold. The Treasury, meanwhile, has failed to hold a gold auction for two months.