

# Gold by Alice Roth

## London scrambles for gold

*London is eyeing a gold-backed monetary system—but what kind?*

The *London Times*' remarkable unsigned Dec. 12 editorial, "A Possession Not A Promise," calling for the institution of a gold-backed international credit system, signals an entirely new phase in the struggle between the Franco-German backers of the European Monetary System (EMS) and the old Anglo-American establishment. Following last week's Atlantic Institute conference where European governments vigorously rebuffed U.S. and British "currency diversification" schemes, London has apparently gone for a "fall-back" option. The name of the game is now an all-out scramble for gold and other "hard" commodities pitting London, the EMS forces, and various Arab oil money factions. As London sees it, whichever groups emerges with the largest gold kitty will be the one to dictate *what kind* of gold-backed system prevails in the 1980s.

The *London Times* editorial makes it clear that the London faction is responding to what they consider a very powerful threat that French President Giscard may make good on his promise to launch a new monetary initiative that could lead to a new international monetary system by spring 1980. Giscard made this promise in a Nov. 26 address before French television. According to the West German daily *Die Welt* on Dec. 10, Giscard intends a "lasting stabilization of the international monetary system. More details concerning that plan are not yet

known. Giscard himself has referred to the 'extravagant monetary disorder prevailing outside the well-functioning EMS.' "

The *London Times* piece insists on the following: 1) Gold has tended to anticipate increases in the world oil price in recent years and, unlike paper currencies, is unlikely to lose its purchasing power between now and 1990; 2) "The European Monetary System recognizes that gold has again become the reserve base of the world monetary system"; 3) "It would be better if the United States and indeed the International Monetary Fund now officially accepted the reality" of gold remonetization; and 4) Gold loans, which have "low nominal and low real rates of interest," could help with "apparently insoluble world economic problems."

London's decision to "grab for gold" and Europe's counter-deployment was reflected in international trading last week when gold was big up to a new historical record of \$451 an ounce on the

New York market. American traders reported a huge surge in buying by a range of European and British institutions, including the major West German and Swiss banks as well as leading London bullion dealers. The large orders prompted rumors that Saudi or other Arab interests were behind the run-up, although this may account for only a portion of the gold buying.

The mysterious decline in reserves at the Saudi Arabian Monetary Agency (SAMA) could be key to understanding recent occurrences in the precious metals market and the likely denouement. Saudi Arabia's official reserves, managed by SAMA, have inexplicably plunged from about \$32 billion at the end of 1977 to roughly \$17 billion last September. Financial experts suggest that the funds may have been diverted away from SAMA into private funds which in turn have been increasingly channeled into gold and silver. If this is true, the future shape of the world monetary system could depend heavily on just which faction of the Saudi royal family—the pro-European moderates or the radical Islamic, London-aligned grouping—control the bulk of these private funds and how they decide to deploy them.

**Gold** London afternoon fixing (Dollars per ounce)

