Gold price surging to new record highs calling into question role of the dollar

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The continued surge in the price of gold—it hit a record high of more than $2,700 per ounce last week and has risen 40 percent in the past year—has raised issues about what this signifies for the future of the dollar-based international monetary system.

The role of the dollar as the global currency gives the US "exorbitant privilege" as it allows the running up of government debt in a way not possible for any other country.

Donald Trump, for one, recently pointed to the significance of dollar dominance, saying that losing it would be the equivalent of losing a war. These views are shared no less in the Democratic Party.

In a comment published in the *Financial Times* last week, well-known financial analyst and commentator Mohammed El-Erian indicated that there were deeper forces at work than market fluctuations and immediate geo-political issues.

"Something strange has happened to the price of gold over the past year," he wrote. "In setting one record level after the other, it seems to have decoupled from its traditional historical influencers, such as interest rates, inflation and the dollar. Moreover, the consistency of its rise stands in contrast to fluctuations in pivotal geopolitical situations."

El-Erian listed a number of factors which are raised as explanations for the continued rise in the price of gold over the past year.

These include: the general rise in asset prices; increased purchases of gold by central banks; loss of confidence in US management of the global order; the US weaponisation of tariffs together with its progressive abandonment of a cooperative rules-based system, and the search for a payments system outside the dollar arising out of the ejection of Russia from the Swift international payments system at the start of the Ukraine war.

The search for an alternative system of payments was a key agenda item at the three-day summit of the BRICS (Brazil-Russia-India-China-South Africa) coalition held in Kazan, Russia last week at which representatives of some 36 countries were present. Whether by accident or design, the BRICS summit was held at the same time as the IMF-World Bank gathering in Washington.

The level of attendance at the BRICS conference reflected the fear in many countries that the freezing of Russian dollar assets by the US and its European allies could be used against any country that crosses their path.

The summit endorsed the use of "local currencies in financial transactions between BRICS countries and their trading partners" and decided to "study the feasibility of establishing an independent cross-border settlement and depositary infrastructure, BRICS Clear."

How far such an initiative can go remains to be seen—there are significant divisions among the countries involved, but the fact that alternatives to the dollar-based system are even being discussed is significant.

There is also recognition of the shift in financial circles. Last Thursday at a conference in Beijing, the Hong Kong unit of the global bank HSBC announced it was "formally joining" China's Cross-Border Interbank Payments System (CIPS). David Liao, the co-chief executive of the bank's China territory business, said the dominant role of the dollar was being "diluted."

Commenting on the attempts to shift away from the dollar, El-Erian noted, correctly, that "no other currency or payment system is able and willing to displace the dollar at the core of the system.

"But an increasing number of little pipes are being built to go around this core; and a growing number of countries are interested and increasingly involved."

In this context what was happening to the gold prices was not just unusual in terms of traditional economic and financial influences. It was the expression of a "broader phenomenon which is building secular momentum."

As a defender of the present financial and political order, this is what led El-Erian to his central concern, to which he said western governments should pay more attention.

"As it develops deeper roots, this risks materially fragmenting the global system and eroding the influence of the dollar and the US financial system. That would have an impact on the US's ability to inform and influence outcomes and undermine its national security."

There is also an even deeper significance to the gold price surge going beyond the position of the US as the dominant imperialist power, decisive as that question is.

It is an initial expression of an emerging crisis in the whole monetary and value system of global capitalism which can only be grasped when placed in its historical context.

At the Bretton Woods conference of 1944, the leaders of the soon to be victorious imperialist powers came together to fashion a new international monetary system, acutely aware that a return to the chaos of the 1930s marked by tariffs, currency blocs and the lack of an international payments system would lead to a crisis and spark social revolution by a resurgent working class.

In media commentary on its 80th anniversary, the Bretton Woods gathering is being lauded as a model of global cooperation to which there should be a return in the face of the present deepening economic and political crises.

In fact, it was far from that. The US used its dominant economic might to fashion an international monetary system based on the dollar. It rejected a proposal by the chief British negotiator, John Maynard Keynes, for the establishment of an international currency, bancor. Just as the US fought to advance its interests, Keynes' proposal was intended to defend the position of a declining British empire and curb the dominance of the US.

The overwhelming economic might of the US ensured that it prevailed, but at the same time it had to make concessions in the form of a guarantee that US dollar holdings could be converted to gold as an ultimate store of value at the rate of $35 per ounce.

The Bretton Woods system, however, was based on a profound contradiction. The dollar became the international currency and to ensure sufficient liquidity there had to be an outflow of dollars from the US.

Moreover, to prevent the world economy, and ultimately the US, from plunging back into depression, with the revolutionary upheavals that would have produced, the defeated imperialist powers had to be revived. This was the basis of the US Marhsall Plan of 1947 through which it reconstructed the war-torn economics of Western Europe

The new system was able to operate for barely a quarter of a century.

It broke down when the US balance of trade turned negative because of the increased competition on world markets from its rivals, whose revival it organised. US gold holdings became vastly outweighed by the dollars circulating in the rest of the world. This led to the decision by President Nixon on August 15, 1971 to remove the gold backing from the US dollar.

The dollar continued to function as the global currency, but it now operated as a fiat currency, no longer backed by gold as a store of value but by the power of the US state.

The theoretical issue which arose was what was the nature of this money, and could this system continue indefinitely. Bourgeois political economy generally ignored these questions so long as the system continued to function—money was simply a technical device.

Such conceptions had been refuted by Karl Marx in the opening chapters of his masterwork *Capital*. There he explained that money had not somehow been invented but was an objective product of the commodity system of production, that is, production for a market upon which the capitalist system was based.

In a system of social production, of which capitalism was the most highly developed form, the value of each commodity was ultimately determined by the amount of socially necessary labour contained in it. And this value had to find independent material expression in the form of another commodity, the money commodity, which for historical reasons and its physical properties was gold.

In the wake of the collapse of the Bretton Woods system, various critics of Marx, including some self-styled Marxists, maintained that the continued operation of the monetary system on the basis of a fiat currency and credit, not backed by gold, had refuted his analysis.

Insofar as they even considered the question of the value represented by this paper money, created by a printing press or in today's conditions by the press of a computer button, it took the form of a circular argument.

The dollar was a store of value and the basis of the financial system because it was sought after in order to conduct trade and other transactions, and it was sought after to perform these functions because it was a store of value.

Marx's analysis did not stop at the opening chapters of *Capital*. He later explained that credit, being similarly a social form of wealth, could displace gold and usurp its position. It was "confidence in the social character of production that makes the money form of products [that is the expression of their value in gold] appear as something merely evanescent and ideal, as mere notion." (Marx, *Capital Volume 3*, Penguin, 707-708)

No doubt this usurpation has lasted far longer than Marx anticipated.

The mounting storms in the financial system, especially since the 2008 crisis, show that fundamental contradictions in the capitalist mode of production and its monetary system are coming to the surface.

The rise in the price of gold reveals that a fiat currency, based on the economic and financial power of a state, cannot continue to function as world money indefinitely. Not when that state, the US, has lost the economic power it once had, is in debt to the tune of $36 trillion, must raise more debt simply to pay the interest on past debt (now around $1 trillion a year) and is now the most indebted nation in history.

This crisis cannot be resolved by the creation of a multi-polar world as the BRICS countries would like to believe. Confronted with a crisis rooted in the very DNA of capitalism, US imperialism is driven to try to resolve it violently, as can be seen in its ever-expanding war front and deepening attacks on the working class at home.

For the working class the only solution is the fight for international socialism, the taking of political power and the ending of the capitalist-commodity system, in which the crisis is ultimately rooted, and the establishment of the historically necessary higher economic and social order.