

Gold hits \$3,000 per ounce in another expression of dollar turmoil

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The price of gold hit a new record high last week, passing the \$3,000 mark, in a sign of the growing uncertainty surrounding the stability of the dollar—the result both of long-term trends and the consequences of the economic policies of the Trump administration.

So far this year the price of gold has increased by 14 percent, with all indications that its rise will continue as both institutional and private investors look for a safe haven as global economic and financial turbulence intensifies.

Since 2000 gold has risen ten-fold amid a series of crises which have centred on the US financial system and raised the question of the long-term viability of the international financial system based on a fiat currency, the dollar, which is not backed by any real value but is dependent on the waning economic power of the US state.

Gold passed the \$1,000 mark in March 2008 when the US financial system was showing signs of turbulence, starting in the sub-prime mortgage market, which lead to the global financial crisis of 2008 when major US financial institutions as well as corporations had to be bailed out by the US government and the Federal Reserve.

The price of gold went past \$2,000 in August 2020 in the wake of the financial crisis at the start of the pandemic when the US Treasury market, a foundation of the global financial system, froze and the Fed had to intervene to the tune of trillions of dollars.

One of the sources of the latest surge in the gold price has been increased buying by central banks in so-called emerging markets and China which have bought more than 1,000 tonnes of gold in each of the last three years.

This has been coupled with efforts by the BRICS group of countries—Brazil, Russia, India, China and South Africa, now being joined by others—to develop alternative systems of payments outside the US dollar.

The decision the major powers, led by the US, to freeze Russian central bank assets at the start of the Ukraine war in February and the exclusion of Russia from the SWIFT international payments system has been a major impetus for these moves because of the fear that what was done to Russia could be done to any country which crossed the US path.

Another major impetus has been the rapid rise in US

government debt resulting from increased military spending, government spending to bolster corporations in the COVID crisis, and the rise in interest rate since 2022.

The US debt has now risen to \$36 trillion with the interest bill running at an annual rate of \$1 trillion a year—a situation which is acknowledged to be unsustainable, including by the Fed.

As John Ciampaglia, chief executive of Sprott Asset Management, a firm which specialises in precious metals and critical minerals, told the *Financial Times* one of the biggest drivers of the gold price since 2000 has been the growth of government debt.

“Global levels of debt have exploded over the past 25 years, they are starting to really weigh in economies and budgets,” he said.

The US is at the centre of this growing crisis. It has only been able to sustain its debt because of the role of the US dollar as the global reserve currency, but in the long run an international financial system based on the currency of the most indebted country in the world is unviable.

All of these longer-term trends are now being exacerbated by the economic war being waged by the Trump administration, at this stage chiefly via tariffs but set to extend, against the rest of the world.

There are two contradictory positions being advanced from within the administration. On the one hand it is asserted that the reason for the US trade deficit with most of the rest of the world is the result of the high value of the US dollar which is pricing US exports out of global markets.

At the same time the administration is determined to maintain the position of the dollar as the global reserve currency. Trump has said that losing that status would be the equivalent of losing a war and has threatened a tariff war against the BRICS group or anyone else which seeks to replace it.

One of the reasons for the higher dollar is that surplus countries invest in US financial assets, in particular US government debt, which is around one-third foreign owned.

Various positions are being discussed within the economic environs of the administration which are gaining the attention of sections of the financial press.

An article last week by FT columnist Gillian Tett pointed to some of the issues under consideration. She began by noting

that with the intensification of the Trump tariff war “indices of economic uncertainty have skyrocketed above even the 2020 pandemic or the global financial crisis of 2008.”

“But the uncertainty could get worse. For all the tariff shocks, there is another question hovering: could Trump’s assault on free trade lead to attacks on capital flows too? Might tariffs on goods be a prelude to tariffs on money?”

That idea, she continued, until recently might have seemed “crazy” because of the role played by capital inflows in sustaining the burgeoning government debt, but it is now gaining currency. Last month, American Compass, a right-wing think tank, said to be close to vice president J D Vance, declared that taxes on capital inflows could raise \$2 trillion over the next decade.

Various proposals were advanced in a paper published by economist Stephen Miran last November on restructuring the global trading system. Miran has since been confirmed as the chair of the White Council of Economic Advisers and as the *Wall Street Journal* noted in a recent article “some on Wall Street” are starting to take his ideas seriously.

Aside from a tax on capital inflows, Miran has proposed a revised version of the Plaza Accord of 1985 in which the US, Japan, Germany, the UK and France agreed to lower the value of the American dollar to reduce trade imbalances.

Miran has said a repeat is needed to correct “persistent dollar overvaluation that prevents a balancing of international trade” which has been dubbed a Mar-a-Lago accord.

Under present conditions, in which Trump is waging economic war against them, there is no way that the other major powers would voluntarily agree to such an accord.

As Michael Strain of the right-wing American Enterprise Institute told the FT: “Europe is not going to rejigger its savings and investments balance or take other big macroeconomic steps in order to revalue its currency just because the Trump administration wants it to.”

Moreover, in the 40 years since the Plaza Accord the world economy has been transformed by the growth of other economies such as China and Brazil.

But the Miran proposals go far beyond a Plaza-type agreement. They include a restructuring of US debt in which US Treasury bonds would be transformed into perpetual bonds. That is, they would continue to pay interest, but the principal would never be returned. The new system would be akin to the debt for equity swap sometimes employed by corporations when they cannot repay loans.

In exchange for their agreement foreign governments would remain under the US “defence umbrella” and not have punitive tariffs imposed on them.

In a column published today the FT economics commentator Martin Wolf wrote: “In a precise sense, this might be viewed as a ‘protection racket.’”

At this stage, such proposals are generally regarded as implausible not least because the rating agencies would almost

certainly regard them as a default by the US on its debt, calling into question the position of the dollar as the reserve currency. In the words of the FT, it would be an event “so dramatic that the impact would be nearly impossible to predict.”

The fact they are even being discussed reveals the enormous crisis confronting US imperialism and its financial system.

Summing up the growing contradictions, Steven Englander of the Standard and Chartered Bank wrote in a note last month: “The problem for the new administration is that it simultaneously wants a weaker dollar, a reduced trade deficit, capital inflows and the [dollar] to remain the key currency in international reserves and payments.”

Whatever economic and financial measures are adopted, the contradictions of the capitalist system are always fought out in the form of conflict between the major imperialist powers—economic war and ultimately military conflict—and the class struggle at home.

Amid the apparent chaos of the Trump administration there is a clear logic at work: increased bellicosity against friend and foe alike and deepening attacks on the working class.

The mounting debt and dollar crisis, reflected in the rising price of gold, is not going to be resolved through some economic and financial rejigging. The debt accumulated by the US in its endless wars and bailouts for the corporate oligarchy requires a massive transfer of wealth from the working class.

This is why the Trump administration, starting with the chainsaw of DOGE, has placed front and centre attacks on governments spending which in any way benefit the working class, which it designates as “waste.”

But it knows that such measures will produce and are already producing an upsurge in the working class and cannot be imposed peacefully. This is why its economic agenda is being accompanied by a full-scale attack on democratic rights and the ongoing construction of a fascist state.



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