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EEC Resolution On Gold Marks Europe Break With Dollar

Sept. 11 (NSIPS) — The European Economic Community (EEC) Monetary Commission meeting in Copenhagen called upon the International Monetary Fund (IMF) to "take a more flexible technique" in its gold auctions sufficient to halt the 'drastic fall'in the price of gold and its "destructive" effects on EEC member reserves. The vote on the resolution, initiated by the Andreotti government of Italy was unanimous. West Germany's unexpected vote in favor of the resolution signifies a major realignment of forces with the EEC against Wall Street and the Treasury Department which had pushed for the gold sales. The move is being widely interpreted as aimed at halting the auctions altogether and a return to a gold-based international monetary system.

Secretary of State Kissinger's attempts to force European rejeciton of Third World demands for debt moratorium and a new universal monetary system are in real trouble. Even that bastion of Atlanticist servility, West Germany cannot be counted on. While Kissinger was able to get the Group of 8 (the industrial nations represented in the North-South talks) to reject Third World proposals for general debt moratorium, the EEC vote on the gold auction raises serious doubts about the strength of Washington's hold over Europe.

The EEC move, which was supported by the Arab states and Mexico, was motivated by the growing realization in international industrialist and banking circles that the Third World's upcoming public political demand for debt moratorium at next week's Paris North-South conference will propel the Eurodollar markets into a terminal crisis of confidence and trigger a full scale run on the dollar. Arab holders of large dollar and sterling deposits in major Euromarket banks were reported at the end of this week to be "getting out while the getting is good," converting their worthless paper into gold and other currencies.

In response to yesterday morning's EEC announcement, the price of gold shot up $4 an ounce for the day. Just one week ago, the U.S. government had almost succeeded in pushing the price below $100. The dollar and its buffer, the British pound, meanwhile dropped substantially against all contintental currencies.

The Italian government began organizing for the Copenhagen decision some three weeks ago, when at a meeting of the IMF Executive Board it demanded that the IMF modify the auctions to stop the downward pressure on the gold price. At the time, Italy received the support of France, Switzerland, Mexico, and members of the Arab delegation, including Kuwait and other Gulf States.

Italy was unable to overcome U.S. political armtwisting within the IMF to continue the auction, with the next one slated for Sept. 15. The Italians decided to take their demands to the EEC, sending a strong "organizing" delegation to the heart of the U.S. occupation forces on the continent, West Germany. When Bundesbank governor Karl Klassen told a midweek press conference as far as the Bundesbank was concerned, "The gold price can fall below $100 per ounce," the Italian government moved to bringing a simmering factional situation in Germany around the old issue issue out into the daylight. The Italians made public inquiry to the West German government as to whether Bonn officially held the same position as the Bundesbank. Finance Minister Hans Apel was forced to demur. The West Germans went along with yesterday's unanimous decision.

Karl Otto Poehl, Vice Finance Minister of the BRD and chairman of the EEC Monetary Commission, told the press after the meeting "Neither the developing countries...nor any industrialized country has an interest in a decline in the price of gold."

In the U.S., response thus far has mainly been shock. Wall Street spokesman Congressman Henry Reuss (D-Wisc.) Chairman of the House Banking Committee immediately attacked the EEC vote and urged the U.S. to reject it. The U.S. Treasury could only comment lamely that it is "studying" the matter.

The new pro-gold European alliance follows last month's public call by the Soviet Union's Moscow Narodny Bank for those countries who support a gold-backed monetary system to stand together against the inflated dollar. The Soviets have proposed gold, an asset mutually acceptable to the socialist and capitalist countries, as the reserve basis for a new international monetary system.

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The Sept. 10 issue of the Italian daily Corriere della Serra indicates that "The balance of payments problems of many countries have already been solved by "de facto debt moratoria." Austerity and reduciton of living standards will not work as a solution so the debt moratoria approach should be generalized. Under such conditions, Correire concludes, "a minimum price for gold is necessary," as a fall back medium of international exchange in a period of inevitable dollar monetary collapse.

The Italians proceeded to elaborate their positon. Under U.S. presusre to down value its gold assets and to put up additional gold as a condition for a roll over of Italy's $2 billion loan from the Bundesbank, Italian treasury instead repaid a portion of the loan in dollars. This "shows the relative esteem that the Bank of Italy has for gold and for dollars," wrote the Italian financial daily Il Fiorino. A commentator for that newspaper had recently termed the dollar the "toilet paper currency."

The Italian press today widely acclaimed the EEC decision. The rome daily Il Tempo termed it an "Anti-American" move to stop the dumping of gold and "the supremacy of the dollar." Il Fiorino notes that the move acts as a brake on the destructive expansion of dollar liquidity generally, by giving clear warning of the lowered confidence in the U.S. currency.

Panic Hits Euromarkets; Pound And Dollar Battered

NEW YORK Sept. 10 (NSIPS) — Both the British pound and the U.S. dollar were hit with panic selling this week, as international "hot money" fled the Eurocurrency markets in search of safer havens in advance of the expected declaration of debt moratorium by the Third World. The once "imperial" pound sterling dived nearly four cents yesterday to $1.7325, then "stabilized" at $1.7525 today when the Bank of England raised its minimum lending rate to one-and-a-half percentage points to a 2 year high of 13 per cent.

According to foreign exchange traders both here and in Europe, the unanimous agreement of European Common Market finance ministers meeting in Copenhagen today to demand that the International Monetary Fund (IMF) end its gold-dumping policy dealt a decisive blow against confidence in the dollar. The "toilet paper" currency, as the dollar is dubbed in Italian financial circles, dropped sharply against the West German deutschemark, Japanese yen, and most European continental currencies yesterday and early today, prompting U.S. Federal Reserve intervention. The price of gold, meanwhile, soared $9 an ounce during the week.

Arab investors are leading the run out of the dollar and pound. They are rapidly liquidating their short-term Euromarket deposits and putting them into gold, equities, and other currencies. Wall Street has failed in its efforts to contain the panic by persuading OPEC investors to put their petrodollars into the stocks of the most bankrupt New York City banks. The OPEC countries are also backing the Europeans' anti-gold dumping stance, Arab IMF sources report, as part of a broader Arab-European commitment to junking the dollar for a gold-backed monetary system.

According to money market experts, it is highly "abnormal" for the dollar to fall at this time. September 15 is a U.S. corporate tax deadline, a point at which the multinational corporations are compelled to convert hundreds of millions of dollars worth of foreign currencies into dollars. That the dollar should be collapsing under these conditions indicates that an uncontrollable panic has set in. Sept. 13 marks the scheduled opening of the Paris North-South talks, where general Third World debt moratorium is the likely outcome.

The British pound was a casualty of this scramble to get out of the Eurocurrency markets — in which the "City of London" banks play a central role. During the second quarter of 1976, investors, representing mainly OPEC countries, pulled their short-term overseas sterling deposits held at British banks to the tune of $1.7 billion. This rate of withdrawal from the pound, the so-called surrogate dollar, accelerated during August and early September. The British seamen's strike slated to begin tomorrow, threatens to rip apart the wage austerity pact negotiated by the agent-led Trades Union Congress and the Labour Party government last spring to appease Britain's Wall Street creditors, provided only the immediate **psychological trigger** sparking the run on the pound.

By mid-week, the Euro-market crisis had so alarmed Lower Manhattan bankers that they decided to cut the pound off from support operations and let it sink. It was hoped that the pound's "sacrifice" would draw attention away from the sinking dollar. Acting on Wall Street orders, the Bank of England abruptly ended its massive support for the pound on yesterday morning, and the currency immediately tumbled almost four cents. Prior to that, the British central bank has spent a whopping $600-$700 million on support operations in the course of the week — more than 12 per cent of the $5.3 billion bail-out loan which the U.S. and the OECD countries handed Britain in June.

According to New York bank sources, Britain was warned to end this expensive intervention immediately, since any further credits would be made available only on the most brutal austerity terms. Asked whether the U.S. government had directly ordered the British to let the pound go, one trader said, "They don't have to be told. The handwriting is on the wall...Britain will have to go to the IMF in December and the IMF is not just going to hand out another $5 billion without conditions."

Traders now report that the Bank of England, with Wall Street gun at its head, will attempt a "managed" pound collapse to the $1.70 level, in hopes of reducing the drain on its reserves.

But as post-Colombo financial panic builds, all such gambits are apt to get out of control. Despite the best"objective" conditions in its favor — the September 15 corporate tax deadline, the IMF gold auction also still scheduled for September 15, and the diversionary pound devaluation — the collapse of the dollar has continued unabated.

For Wall Street and the dollar both, their time has just about run out.

Financial Community Assesses Europe's Demand For Halt To IMF Gold Auctions

Following are the reactions by the financial community to Italy's demand for a cessation of the International Monetary Fund's gold sales, with assessments by leading observers of the significance of today's unanimous vote by the European Monetary Commission of the EEC to back the Italian demand.

Thomas J. Holt, President of T.J. Holt and Sons gold trading firm: The reason for the drop in the British pound is that Arabs are getting out, and not into dollars, but into some gold and into other currencies which allow them to avoid dollars. The Arabs don't necessarily want to buy (gold) now, they want to wait till the price hits the bottom where all the speculators have been shaken out, but they want to buy. A lot of corporations and other clients we have say that the Arabs are very close to the Third World situation and they know that the debts are not and cannot be paid, so that the state of the major banks and thus of the dollar — and the Arabs' own deposits in those banks — is very