## GOLD

# A new gold rush: two monetary strategies

The world gold price soared to a new historical record of $303 an ounce on July 18 reflecting international investors' perception that Carter is a lame duck president whose energy policies cannot be implemented in the face of overwhelming opposition by the U.S. population. How much higher the gold price will go will depend on whether this vacuum in U.S. politics is filled, and by whom.

West Germany's Dresdner Bank, which is rumored to be representing the Saudis, has continued to power the gold price rise. Dresdner carried away nearly 90 percent of the gold offered at the latest U.S. Treasury auction held on July 17 and has purchased most of the gold offered at both the Treasury and International Monetary Fund auctions in the preceding six months.

This column agreed with Desdner's estimate several weeks ago that gold would reach the $300 level—I analyzed it as an adjustment in the previous $240 target to compensate for the increase in world oil prices. The targeted gold price has been a key component of the French and German plans for a European Monetary Fund. The fund—slated as the next stage of the European Monetary System founded a year ago by French President Giscard and West German Chancellor Schmidt—would absorb 20 percent of its members' gold and dollar reserves. This was conceived as a capital base for generating long-term dollar credits within the European Community for industrial and agricultural development for Third World industrialization.

The EMS would effectively set the banks have already been doing to a considerable extent, and would gradually monetize the entirety of EMS gold reserves through the European Currency Unit accounting mechanism, whereby settlements payments would draw more and more gold into the fund's operations.

Opponents of the EMF have had no effect in their attempts to demonetize gold by U.S. Treasury and International Monetary Fund (IMF) gold sales; the latest Treasury auction was far from the first time Dresdner simply absorbed the gold. Nevertheless, the July 18 *Journal of Commerce* plays up a prediction by the New Jersey-based gold commen-

## FOREIGN EXCHANGE

# What will Europe do about the dollar?

The dollar continued to reach new 1979 lows July 16 through 19, but except for its six-cent depreciation against sterling, this collapse to pre-October 1978 levels was a threat rather than an imminent threshhold. Vis-à-vis the mark, the dollar barely lost ground following Carter's nationwide energy address and Cabinet purge. This was initially due to central bank intervention, but by July 19 the markets were profit-taking and waiting for a dollar-support announcement from Washington—probably a significant interest-rate hike.

The dollar slide is widely attributed to European and domestic sentiment that Carter is not forcing America to "really bite the energy bullet." The economic choice is supposedly a) tightening credit and pushing the recession over the edge, or b) not tightening credit and leaving nothing but the central banks between the dollar and its collapse to below October 1978 levels. Then OPEC would end dollar pricing for oil and push up U.S. costs further.

The West German Bundesbank, which has been protesting its government's dollar-support commitments for months, is reportedly holding back from full-scale intervention on the grounds that dollar purchases would unconscionably swell the West German money supply. Apart from the fact that clever, forceful bear traps are more effective than throwing lots of currency into the markets—especially if the latter simply serves to give speculators a guaranteed return—this excuse begs the question of the European Monetary System (EMS).

The EMS was set up last July precisely as a channel for absorbing unwanted dollars to then turn the dollar into a prized asset by forming a dollar-gold reserve pool (see Gold) for mammoth trade and investment credits. This would have the dual effect of drying up speculation and generating inflation-proof dollar returns.

Since the Europeans were pressured this spring into delaying implementation of this European Monetary Fund mechanism, the hope of the antidollar factions is that a new dollar crisis would catch EMS leaders unprepared, and force them to give up on their dollar rescue plans for good. The EMS's accounting unit—the European Currency Unit (ECU)—could then be shaped into



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tator Charles Stahl that gold will sink to $240 by October and possibly $220 by next spring, because the Treasury will sell more gold to defend the dollar and the IMF will do the same to finance an "oil facility." Washington, D.C. veteran Thomas Wolfe commented to *Executive Intelligence Review* the same day that such sales would obviously backfire and drive up the price, once the markets saw Dresdner and others ready to buy the offerings.

In previous columns, I suggests that Dresdner's massive purchases were part of Franco-German strategy to integrate Arab petrodollar holders into the powerful new gold-backed monetary bloc centered around the European Monetary Fund. Although Dresdner may in fact be playing this role, another major force in the gold market, namely the British bullion houses, are also bulling the gold price for different reasons. The British and their cothinkers at the New York Council on Foreign Relations hope to use this latest run on the dollar as a battering ram with which to force the U.S. to undertake an even more severe energy austerity program than that proposed by Carter—a program which can be enforced only by placing the U.S. economy under IMF receivership and by establishing the IMF's Special Drawing Rights as the world's new reserve currency.

The British game-plan is to play the Franco-German-Arab faction off against the U.S. by playing on their "anti-American" profile and circulating the line that only U.S. oil import reductions will "stabilize the dollar."

The German banking community's vulnerability to such British manipulations is illustrated by the case of Dresdner Bank managing director Hans-Joachim Schreiber who told *Handelsblatt* in a recent interview that he welcomed Carter's energy speech, but hoped he would go one step further and deregulate domestic oil prices. Schreiber further predicted that world markets in the next several months would be characterited by a continued upward trend in the gold price, renewed dollar weakness with the U.S. currency swinging between 1.75 and 1.85 deutschemark, and increasing interest in gold on the part of oil-producing nations.

—*Alice Roth*

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an "alternative reserve," supplementing or replacing the unpopular Special Drawing Right.

We recently reported the comments of Citibank's Harold Van B. Cleveland, at a Paris conference last month, that the EMS could not withstand a fresh destabilization of the dollar. Cleveland told a reporter July 15 that "enormous shifts of capital are in the works" into non-dollar assets—"even guilders." The reason for the dollar's drop, he said, is not Carter's energy inaction but the Fed's "relaxed" money supply policy, especially compared with the Bundesbank's. He predicted that the Fed will tighten funds, and added that the Saudis have been "assured" that there is nothing the U.S. can do about the dollar right now, and they—the Saudis—should take no drastic action. Meanwhile, he concluded, the upward pressure on the deutschemark is getting so intense that it will have to be revalued within the EMS's fixed parity grid.

However, West German Economics Undersecretary Manfred Lahnstein rather dramatically stated July 18 that there will not be an EMS curreny realignment, especially not before or during the discussions of the European Monetary Fund (EMF) implementation officially scheduled for early autumn. The lira and Irish pound, not the mark, are the system's strongest currencies, he said (which is technically true); there is no need for a Belgian or Danish devaluation because monetary authorities have taken suitable measures domestically.

Lahnstein's reference to EMF deliberations is the first such public statement; it comes on top of multiple signs, as we have reported, that something is on the drawing boards. What remains uncertain is its orientation toward the dollar.

A think-tanker at the Georgetown University Center for International and Strategic Studies, which maintains important conduits in West Germany, claimed July 16 that within six months, the ECU will be established as a reserve currency to replace the dollar, that Chancellor Schmidt is totally in favor of this, and that OPEC will diversify into ECUs because "there are not enough marks, not enough yen, they have nowhere else to go."

There is little doubt that this is what Georgetown and its Chatham House associates in London would like to see, but neither the Europeans nor the Arab oil producers have been bashed into line. The immediate choice the EMS and its increasingly close OPEC allies face, instead, seems to be between waiting—and allowing austerity advocates to run amok in the U.S.—or taking some step in the direction of establishing the dollar's reserve value.

— *Susan Johnson*