The White House, the market, the Fed, and the price of gold

by Renée Sigerson

There are several equations—political and financial—now acting upon the price of gold. Currently, these factors point toward a strengthening of the gold price against a weakening U.S. dollar. However, as the monetization of gold has now become a live political question in Washington and other capitals, the trends in the gold price are less important than determining who will dominate the gold market, and what role gold could play to achieve economic recovery.

On Feb. 24, the price of gold fell $24 to $476 an ounce within hours of the opening of New York's Commodity Exchange. The source of the dumping was apparently Arab oil-producing countries—such as the United Arab Emirates—who have hoarded gold, but now need cash because the price of oil is falling. The widespread explanation circulated that day was that the price had fallen because lower oil prices reduce inflation expectations, but that was "the official press reason only," a New York trading company source said.

In fact, the Arabs had begun liquidating in early January, when oil prices had definitely started to decline. As this became known, "sell-loss" orders piled up with the New York houses. January also marked one of the heaviest months ever in trading of silver and platinum. On Feb. 24, when pressures finally brought the gold price below $495, the sell-loss transactions went into effect, creating what our source characterized as an "avalanche."

Among the financial institutions closely monitoring this whole sequence of events, according to banking sources, was the U.S. Federal Reserve. This is unusual. Firmly anti-gold on ideological grounds, the Fed ordinarily dismisses gold developments. It turns out that the Fed's interest in the point at which the price would crack was one of the results of the factional situation emerging in Washington, D.C. on the issue of gold policy.

"There is serious discussion in the White House and Congress about the idea of a gold-backed dollar," a source at the House Banking Committee divulged Feb. 22. The Fed, foreign central bankers, and an array of Democratic and Republican officials are extremely worried about this discussion. It is well-known that President Reagan desperately wants to bolster the economy, and give credibility to his continuous pronouncements of recovery. With pressure mounting against the U.S. dollar, uncertainty around financing for the deficit, and a crumbling tower of global debt denominated in dollars, signals are that Reagan just might catch on that linking the dollar to gold could increase his economic policy leverage.

Although it is too early to tell, it cannot be excluded that "market forces"—i.e., Swiss, British, and Wall Street bankers—will attempt to use wild fluctuations in the gold price in coming weeks to help dissuade Reagan from moving in this direction. Because of the oil-price developments, the private money markets are currently skittish enough that such turbulence is not difficult to arrange. The Swiss and British have their own "private market" plans for gold, and the last thing they would like to see is a heavy-handed U.S. government gold policy.

Dissuade the President

Two proposals are known to be circulating on the highest levels in Washington on gold remonetization. While scarcely a word of this debate has leaked to the press, secret cross-party consultations have already occurred on how to disorient Reagan on this issue. Participants have included intimates of the Democratic Party's national chairman, California banker Charles Manatt, and right-wing Republicans around Congressman Jack Kemp, who derive their monetary views from the Swiss-based Mont Pelerin Society.

What led to the confluence between these Democrats and Republicans was their concern about potential White House interest in the proposal of *EIR* founder Lyndon H. LaRouche which calls for unilateral U.S. remonetization of gold at $500 per ounce. A series of recent interviews with U.S. monetary experts demonstrated that even opponents of the LaRouche plan admit, on the technical level, that "it works" as a stepping stone towards economic recovery.

What makes the LaRouche plan so controversial is its central feature of basing gold remonetization on U.S. Treasury issuance of gold-backed bonds, for purposes of financing expanded international trade in real commodities. It is this provision to provide net new liquidity for previously determined productive purposes, which throws the monetarist and liberal opponents of the LaRouche plan into such hysteria. Across the board, these opponents would prefer to spew out

© 1983 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.

"soft" dollars to finance the International Monetary Fund, rather than strengthen the U.S. government's sovereign powers to reverse the economic depression.

To short-circuit White House interest in the LaRouche plan, these proponents of supranational, anti-industrial monetary institutions aim now to discredit remonetization of gold in Reagan's view. "People are . . . alarmed that there is serious discussion of the gold-backed dollar," a congressional source privy to these deliberations leaked. "Unless the gold idea is shown to be unworkable now, there is always a real chance that the administration might turn to it in a crisis." To discredit gold, he proposed, "the best thing that could happen is to have a debate now in which [some people] first push gold and then back off."

Mid-February, Jack Kemp burst into Reagan's office and told him that the world monetary system was about to go bust, and that the President should remonetize gold. A formal version of Kemp's remonetization schema will soon land on Reagan's desk. It will be written by the Hudson Institute's Herman Kahn. The Kahn blueprint will specify that the Treasury should issue gold-backed bonds, but *exclusively* for the purpose of financing the U.S. deficit—*not* to authorize liquidity for trade-financing purposes.

As involuted as it may sound, what Kemp, Kahn and their Swiss-London friends are doing is a rerun of a trick they skillfully pulled on Reagan in 1981, around the President's special Gold Commission. At that time, Alan Greenspan, the Swiss bankers' friend who sits on the board of Morgan Guaranty, participated in the script, which ended in the Commission rejecting any restoration of gold's role. Kemp's friends report Greenspan is working with them this time around too.

'Free-market forces'

Concurrent with this tug-of-war, international commodity trading houses and fast-buck vulture operations are playing their own game with gold. In January, the single largest private operator on the world gold market, Geneva's Edmund Safra, merged his private Trade Development Bank with Wall Street's American Express, vastly upping his leverage and maneuverability. The multi-billion Phibro/Salomon group is also gearing up on gold. Insiders report Phibro is setting up a network of trading companies which are moving into select Third World countries, to pick up on barter trade. Gold deals will play an important part in these arrangements.

Other trading firms reports plans to invest in gold-mining in Brazil. A New York company moving into Latin America expects the dollar to sag sharply in coming months, and predicts a "shift of financial power to the benefit" of countries which import oil, with prospects for exotic private financing arrangements, involving gold. The last thing these "market forces" would like is a tough U.S. gold policy. Don't be surprised if they rig some heavy fluctuations in the price to help dissuade Washington from adopting a gold-based recovery policy.

Group of 77 meeting sidesteps immediate

by Carlos Cota Meza in Cartagena

The ministerial-level summit of the Ibero-American members of the Group of 77 developing nations, meeting in Cartagena, Colombia, went into deliberations in an atmosphere of economic shellshock. In the week before technical delegations assembled on Feb. 21, and foreign ministers began arriving Feb. 23, the following drastic developments occurred:

- Brazil devalued the cruzeiro 30 percent in the biggest "maxi" in a decade; called on the Bank for International Settlements (BIS) to roll over a $1.4 billion bridge loan, an unheard-of procedure; and let Banco do Brasil payments at its New York office go formally into arrears (see International Credit).
- Venezuela suspended all trading of the bolivar, and for three days went into non-stop emergency sessions of the cabinet to resolve on a devaluation (it would be the first in two decades), exchange controls, or a combination of the two (see Business Briefs). The week before it had been informed it was simply not going to get the $8.7 billion restructuring of its short-term debt into longer-term maturities.
- On Feb. 16, Mexico suddenly informed its 13-member advisory group of international banks that the group had better ante up $500 million in an emergency bridge loan toward the delayed jumbo loan of $5 billion or see Mexico fail to meet its February bills.

As delegates walked the streets of Cartagena to reach the convention center, they passed among frantic vacationers and others buying or selling bolivars at as much as 50 percent below the official bolivar quotation. However, a response from the meeting appropriate to the gravity of the crisis was not forthcoming. Despite a strong economic platform offered by the Latin American Economic System (SELA), the majority of delegations waffled on using the meeting as a forum to make any decisive breaks with the IMF world order. The Non-Aligned meeting which begins in New Delhi the first week in March will not have the benefit of major initiatives for a new world order passed on from the Cartagena gathering.

Pure strongarming explains a good deal of the timid out-