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GOLD

Dresdner moots new global gold standard

The specter of a new international gold standard is haunting the Anglo-American financial community. In his press statement as President Carter's nominee for chairman of the Federal Reserve, Paul Volcker placed himself on record as "opposed to a return to the gold standard." Volcker did not bother to mention who was advocating such a standard, but events of the last week leave little doubt that the same West German and French banking and industrial circles who initiated the European Monetary System (EMS) are also backing an expanded monetary role for gold. And, as a top official at Consolidated Goldfields, the British-based mining finance house, pointed out in a July 25 interview with this columnist, the future development of the EMS and gold's role in it are primarily "defense," or military-strategic, questions.

Gold-oil link?

Although European banking officials have said little publicly concerning the nature of the proposed gold standard, a few hints were dropped in an article by Dresdner Bank managing director Hans-Joachim Schreiber published in the latest issue of the West German weekly *Wirtschaftswoche*. Schreiber commented that the gold price has tended to reflect "a 15-fold multiple of the dollar price of a barrel of oil" and that this would imply a new range for gold in the coming period of between $330 to $350 an ounce.

Ironically, although Schreiber depicts gold price developments as if they were being determined by blind "market forces," Dresdner Bank itself has been largely calling the shots in the international gold market for the last six months through its gold purchases.

There are other important implications of Schreiber's remarks. The Europeans and the oil-producing countries may decide to negotiate an agreement in which oil will be formally indexed to the price of gold. The Europeans could then pay for their oil imports in gold revalued at the full $350 market price or (more likely in practice) by issuing their own gold-indexed IOUs. Both imply an officially pegged gold price.

The one big question mark is: What will happen to the U.S. economy and the U.S. dollar under such a scenario? There is little doubt that

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DOMESTIC CREDIT

Who is triggering a U.S. downturn?

One perception making the rounds on Wall Street last week was that Europe and Japan had forced the latest hike in U.S. interest rates by raising their domestic rates. "I think that the thinking of Emminger and other central bankers was in part, 'Let's force these guys into a recession,' " George Harbin of Dean Witter Reynolds commented in an interview.

The same argument was put more subtly by the London *Observer* on July 22. The *Observer* that the succession of interest rate hikes in Europe, touched off by the West German central bank in mid-July, brought renewed pressure on the U.S. dollar and forced the Fed to raise its discount rate a half a percentage point to a record 10 percent on July 20. The *Observer* concluded that "the international situation leaves the Federal Reserve with little choice but to hold firm," even though a restrictive monetary policy will aggravate the U.S. Recession.

While Emminger, the outgoing West German central bank chief, may indeed have been thinking along such lines, West German industry hardly wants the U.S. economy to tilt into a recession—on consideration of the impact on West German exports of autos and other goods alone.

Moreover, as *Business Week* pointed out in its July 30 issue, Bundesbank monetary policy has not been as stringent as it has been portrayed to be. German financial sources say that the central bank's decision to lift the Lombard rate to 6 percent on July 12 was taken in lieu of a much more drastic step under consideration: the imposition of strict limits on what the banks can borrow to meet Germany's rising domestic loan demand. German sources also note that the Bundesbank is quietly replacing its earlier 6

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the Europeans would prefer to maintain the dollar's role as an international reserve alongside gold (as opposed to using the D-mark or the European Currency Unit). However, should the U.S. government continue to pursue incompent, hyperinflationary energy policies, no force on earth can prevent a dollar collapse. Every upward jerk in the gold price against the dollar would then result in a corresponding increase in the cost of imported oil to the U.S.

The U.S. economy would be pulverized, but Western Europe, assuming a relative stability of its currencies against gold, would appear stable. This would be no real solution for Europe, however, since the disintegration of the world's largest and most advanced industrial economy would deal a devastating blow to world trade. Dresdner's scenario "works" only to the extent that the U.S. economy is rebuilt through a program of low-cost nuclear energy development and expanding nuclear technology exports to the Third World.

British worried

Like de Gaulle's 1960's campaign to revalue gold, Dresdner's gold market activities have deeply worried London's elite, who perceive rightly that a new international gold standard would blow sterling and the purely speculative London financial markets clean out of the water. Christopher Glynn, of Consolidated Goldfields, told *Executive Intelligence Review*, "I haven't seen his (Schreiber's—A.R.) comments, but I would guess that what he means is a new official price for gold. I don't think that the financial state of the world is so serious as to warrant this."

Glynn said he thought (or hoped?) the gold price was "close to its top." He cited a recent slackening of demand for gold purposes of jewelry fabrication in response to the high prices and an emerging recession in the U.S. which, he believes, could force a severe downward break in the gold price similar to that which occurred in 1975.

The source of Glynn's bearishness towards gold became clear in a discussion of why Britain is reluctant to join the EMS. Whether Britain joins or not is primarily a "defense question," Glynn stated, because "if we joined, we would become Europeans. We would be committed to a common defense system with Europe rather than working with the U.S. in NATO." Asked whether this means Europe is going "Gaullist," he deferred the question.

—Alice Roth

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percent target for money supply growth in 1979 with a 9 percent target.

The actual impetus for tighter monetary policy in the U.S. is coming from London, and is part of a scenario for strengthening the dollar through domestic austerity, and beefing up NATO and the International Monetary Fund over against an emerging European-Arab security and economic bloc with growing trade ties to the Comecon.

On July 25 the *Financial Times* of London's Lombard column laid out a grisly imagined sequence of events in which the U.S. follows the route Britain took after the 1976 sterling crisis, and invites in the IMF: "Perhaps President Carter should now go and plead with the IMF for a loan. M. Jacques de Larosière could then appear on television and instruct President Carter to double the price of oil over three years, to invest in public transport and to force Detroit to produce small cars. International investors would be so enraptured to see Mr. Carter and the American people publicly chastised that they would pour their money into America and the dollar would become mightier than ever."

The choice of Paul A. Volcker to head up the U.S. Federal Reserve Board is very much a part of the Anglo-American ploy to bolster the U.S. dollar—on the basis of high interest rates, high energy prices, and other measures designed to reduce consumer purchasing power in the U.S. Volcker, who is vividly remembered by Europe and Japan as the Treasury official who conspired with Secretary John Connally to put the 1971-73 dollar devaluation over on them, has in recent months been plugging for tighter U.S. monetary policy at the Federal Open Market Committee. In remarks to the press following his nomination July 25, Volcker expressed his commitment to a "strong dollar" policy.

As the current instability of the British "miracle" attests, however, the tight money-austerity route is hardly a viable one for attracting long-term investment money into the U.S. or any economy.

—Lydia Schulman