Will Dollar Stabilization Have A Gold Lining?

Widespread discussion of gold remonetization has surfaced following last week's news of a far-reaching U.S.-West German-Japanese agreement to support the dollar with a currency stabilization program (See *Foreign Exchange*). West German commercial bankers informed *Executive Intelligence Review* March 8 that the currency "supersnake" would involve "something on the gold side as well, which would make the dollar gold-convertible again." The economics department of Lazard Freres is already betting its money that the U.S. has begun to swap gold to defend the dollar with the West German and other continental European central banks in return for deutschemarks, Swiss francs, and other foreign currencies.

GOLD

At the same time, Saudi Arabian Finance Minister Mohammad Aba al-Khail told the press in Jidayh March 4 that the dollar is the "only substitute for gold."

Further indication that gold remonetization based on the Luxembourg plan of assassinated Dresdner Bank head Juergen Ponto is under discussion appeared in today's issue of *Die Zeit*, the conservative West German news daily. Columnist Arthur Salchow commented that the new Swiss Central Bank foreign exchange controls (see last week's *Executive Intelligence Review*) are forcing gold trading and other international banking activity normally centered in Zurich, notably Arab trading in gold, into the "super-liberal Luxembourg market...Swiss financial circles have started to orient to Luxembourg, where German banks already have a strong position."

The Ponto Plan for Luxembourg and the use of U.S. gold reserves upvalued to market prices to stabilize the dollar are one and the same proposal. The original Ponto plan involved the West German, Swiss, and other continental European commercial banks, setting up a new continental-oriented gold market in Luxembourg, which would exclude the heavy London influence under which Zurich suffers (viz, the "Credit Suisse Affair"). Based on the large gold deposits to be made there, the banks would then orient their currency lending away from the typical speculative Eurocurrency market type of lending and toward long-term, low-interest industrial development loans for the underdeveloped sector. This would represent the use of gold not for the usual gold-bug view of "discipline" which too often falls victim to Milton Friedman's deflationary fits, but rather the dirigistic channeling of new credits away from speculative paper and rigorously into productive, social-surplus-producing industrial investment. Thus the new liquidity created would be anti-inflationary.

Bringing the U.S. into such an arrangement then, is the way to deal with the U.S. trade deficit and dollar crisis—and this is what the Europeans have in mind. By asking (as Otmar Emminger and Pierre Longuetin of the West German and Swiss central banks have done this past week) that the U.S. support the dollar by upvaluing its reserves to market prices and swapping this gold for West German, Swiss, etc. currency to use in intervention, the Europeans de facto ask the U.S. to come into a gold-remonetized system which:

1. Immediately makes the dollar one of the world's strongest currencies with $50 billion in reserves.
2. Makes it possible for the U.S., by expanding Eximbank financing for exports and U.S. commercial bank participation in the Luxembourg gold market, to put a real economic basis for a U.S. recovery in support of the financial arrangements.

One major sign of the European attempt to stop the City of London bear raid is the lead financial article in the latest issue of London's *The Banker*. The article, "Alternatives to the Dollar," excerpted extensively below, proposes that the European central banks set up a "Euro-gold" market by pooling their gold reserves under the aspects of the European Economic Community (EEC) or any of its arms such as the European Investment Bank—which are now run by Britain's Roy Jenkins. This done, author Brendan Brown proposes the replacement of the Eurodollar market and the dollar by the issuance of "gold-paper" loans and Swiss franc loans. The Swiss franc would be made an international currency, and the Saudi real linked to the franc would take over financing of LDC loans from the dollar.

Even the Lazard Freres economics department, when questioned on the feasibility of *The Banker* proposal, admitted: "There is no way in hell you could get that gold out of the hands of the Bundesbank or the Banque de France. That's insane." The main point of the article is to put forward obfuscations and some kind, any kind, of alternative to what the Germans, Swiss, and Japanese authorities are already doing.

Trader At A Major Frankfurt German Bank...

Q: What about the report that Germany, the U.S. and Japan will stabilize their currencies together including swaps of gold at market prices between central banks to support the dollar?

Frankfurt bank spokesman: Something's up. We hear that Helmut Schmidt will announce soon that an agreement has been reached on a "supersnake" (the snake is the European mutual currency agreement—ed.) based on the deutschemark, yen, and dollar. Something's cooking on the gold side as well, which would make the dollar gold-convertible again, linked to this arrangement. It's just that the arrangement may have some delay before being publicized.... Therefore at present the market is very hesitant, very nervous, and no one is making any serious commitment.

Economist At Lazard Freres, New York

Q: Do you think that the fact that The Banker *of London has hastily put out a British-style plan for a gold based monetary system is a counter-reaction to strong moves by the Germans, Swiss, and other Europeans and Japanese to gold swaps with the U.S. to stabilize the dollar, which would hurt Britain badly?*

Lazard economist: Well, certainly, I don't think London would like that...it stands to reason. The Swiss are very big on this gold thing. I was told by my Zurich trader this morning that the U.S. is already selling gold, when I called him to take some profits on my position.

Q: You don't mean on the open market; I don't see it affecting the gold price any. Do you mean to the continental European central banks, as proposed by Bundesbank chief Emminger? If the former, you would take profits (i.e., sell gold). If the latter, you would not.

Lazard economist: I did not take profits.

Support For Dollar Urged

Baltimore Sun, *March 5:*

The Saudi finance minister called on the Persian Gulf oil states yesterday to support the dollar "until it survives the current pitfalls" on world money markets.

But Mr. al-Khail said, "The volume of other international currencies remains limited in relation to the dollar." He called the dollar the "world currency capable of embracing sizeable money operations, the sound currency for international trade and investment, and the only substitute for gold."

"The interests of Saudi Arabia and the gulf states dictate that they support the dollar and avoid all action that might adversely affect its behavior, until we can establish conditions for its recovery to safeguard our reserves and investments." he said.

Mr. al-Khail also asserted that "speculators were trying to cash in on the dollar weakness beyond justifiable means."

"The American economy is the most powerful in the world and the GNP (gross national product) has reached $3 trillion...," he said. "I believe that problems may appear from time to time. But these will always be transient problems as far as the dollar is concerned."

Top New York Gold Trader...

Q: A quite diverse and generally reliable array of sources report that a sort of European "supersnake" is in the works, involving not only Japanese cooperation but U.S. cooperation, and some sort of peg to gold.

New York Gold Trader: Yes, it will take some time, but things are definitely moving in this direction. I don't think it will take the form of a dramatic public announcement. Meanwhile, there is absolutely no eagerness to sell the dollar short—Europe is very nervous about France and Italy, and about the coal strike, but we have seen a turning point this week, and there will be a stronger dollar. I don't see immediate Swiss-German joint action—the Swiss are playing a lonely game with their controls, the franc is plummeting, while the Germans are holding off from controls, so there is a big disparity.

Q: Yes, but the Swiss controls are just a short-term holding action, and there is cooperation on burning the bears—as witness the commercial and Bundesbank actions this week—until this, let's say, "supersnake" thing is put together.

Trader: You're right, they're on that track....

Brendan Brown in The Banker, *Feb. 1978:*

Alternatives To The Dollar

There is a financial solution to the strains threatening the structure of international economic co-operation. It lies in the opening-up of the financial markets of Switzerland and Germany, and a limited re-monetisation of gold.

In 193 AD, when the Imperial Crown was put up for auction, those most qualified stood back, too concerned with the possible hazards of the honour, with the result that the title of Caesar went under the hammer to Julian, a mediocrity. Today, in the international money markets, the world's financial community is beginning to seek a successor, or at least an alternative to the dollar....the time seems ripe for asking once more whether a rapid internationalisation of two traditionally attractive monies—gold and the Swiss franc—could be effected....

Euro-gold

Swiss francs, dollars, and deutschemarks all share one defect as international monies: their base is national and their values depend on sound monetary policies being followed at home. All are subject to the risk of imposition of exchange restrictions by the issuer. International investors (and borrowers), who have often reason to be sceptical about the politics of money, would have a natural inclination towards one which is not a national brand. Re-monetised gold would in this respect come nearest to stateless money...

It is inconceivable that a restored monetary role for gold would take the form of convertibility for a national money into the metal at a fixed rate. Rather, whilst gold would continue to float against other monies, remonetisation would be evidenced by the birth of credit markets denominated in gold, which would again become an international unit of account. Interest rates on top-rated gold bonds would be at a level sufficient to compensate their holders for the disadvantages of holding gold paper rather than the yellow metal: gold bonds do not provide the ultimate insurance of retaining value in a state of social breakdown. Investor trading interest in gold would be concentrated in the gold paper market. Investment in physical gold would be preponderantly of an insurance nature. The premium for insurance against social breakdown would equal the loss of interest on holding metallic rather than paper gold....

In these circumstances official institutions need to take the initiative. But a world consensus including the agreement of the U.S. Government is not necessary. Indeed, one constraint that may have hampered the development of Euro-gold has been removed recently. A law signed by President Carter on October 28, repealed a 44-year-old prohibition on gold clause contracts. It enables U.S. citizens to enter into contracts specifying that payments be made either in gold or the market value of a certain quantity of gold.

European governments are the most likely sponsors of a Euro-gold market. Many hold large gold reserves, hence their issues of gold bonds would be hedged many times over. European institutions such as the European Investment Bank, the European Coal and Steel Community and the EEC itself could be among the first to make gold bond issues. Most EEC members, with the exception of Britain and West Germany, have never wholeheartedly supported the United States in its anti-gold campaign. Some LDC governments and other sovereign powers with gold reserves would soon follow the European example. A gold-denominated syndicated credit market would be a possible further development. All such initiatives would also take the pressure off the dollar, and ease the political straws now threatening the amity of the West. Saudi Arabia could even play its part by pegging the riyal to the Swiss franc and encouraging *foreigners—such as Arab LDCs—to borrow in riyals.* There is a financial solution to the world's payments imbalances....

Hopefully, 1978 could be a year of currency internationalism; how else can the world economy be spared the dreariness and dangers of dollars only?

U.S. Labor Party Executive Statement:

Remove Blumenthal From Office Now!

The mood of the country is fast approaching one of open revolt against the treasonous policies of Treasury Secretary W. Michael Blumenthal against the dollar and to destroy the U.S. economy. Blumenthal should have been removed from office long since, before the crisis of the dollar reached such dire proportions, along with the rest of the team of City of London conspirators inside the Administration — Vice President Walter Mondale, Energy Czar James Schlesinger, and now Federal Reserve Chairman G. William Miller. It is now a matter of the gravest national emergency that the traitor be dumped immediately. This is the bill of particulars for the indictment of W. Michael Blumenthal:

"Malign Neglect" of the Dollar

Since the day Blumenthal was sworn in as U.S. Treasury Secretary in January 1977 the U.S. dollar has plunged 16 percent in value against the West German mark, 24 percent against the Swiss franc, and 19 percent against the Japanese yen. Throughout the period City of London ally Blumenthal has looked on coolly, predicting bigger and bigger U.S. trade deficits and insisting on the desirability of the dollar's steady depreciation. Blumenthal has pursued a strategy of deliberately "talking down the dollar," while opposing measures to boost U.S. high technology exports and attempting to bludgeon the major surplus countries, Japan and West Germany, into reflating their economies and joining the U.S. in trade deficit. This strategy has worked not only to the detriment of the U.S. economy, which should be fulfilling its historical role as a major exporter of advanced technology and capital goods to the rest of the world. Blumenthal's policy has endangered our relations with our closest allies abroad — including West Germany, Japan, and Saudi Arabia — and threatened world peace.

Anti-Business, Anti-Labor Tax "Reform"

The original Blumenthal tax reform program, which has since been weeded of some of its most abhorent features, was a program for deindustrializing the United States. The "comprehensive income tax" approach, designed by the people at the Brookings Institution and adopted by Blumenthal, is without question the worst approach to taxation in the history of this country. In the name of taxing all income "equally" and eliminating tax loopholes, the Blumenthal-Brookings approach is to phase out all features of the present tax code which promote capital investment. It includes these anti-business and anti-labor features:

* elimination of all items in the tax code which are designed to promote capital intensive enterprises, including: preferential treatment for capital gains income; the percentage depletion allowance for oil, gas, and other minerals; accelerated depreciation; tax deferrals for foreign subsidiaries of U.S. corporations, etc. A computer simulation run by Merrill Lynch showed that if the full Blumenthal program had gone through, the specific industries that would be worst impacted would "include most of the energy-related, metal, and mining groups ... the machinery, heavy construction, airline, rail, water transport, and basic industries ... the paper and forest products industries ... utilities"!

* an anti-labor "Tax Incentive Plan," which would penalize corporations that grant their employees wage increases in excess of the government wage ceiling and