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unemployment, with insoluble political consequences ... The longer the White House remains impotent the greater the possibility of violent public reaction against the government.

" ... Western Europe ... in these circumstances cannot remain prosperous ... it may live off the fat for a time but eventually production will fall and unemployment problems must rise."

Sources say the Bank definitely means gold—not uranium or coal, as some pundits speculate.

This thesis is reinforced by the London *Financial Times* Lombard column analysis July 3 of "Why the Dollar has been Weak." Samuel Brittan writes that the post-November dollar recovery was a "myth" which is now giving way to a "downward movement" with no bottom for the dollar because the U.S. has not had the political will to implement Thatcher-style British austerity programs.

"The sterling dilemma"

Why none of this will work was graphically laid out in turn by the *Financial Times* in its July 3 editorial, "The Sterling Dilemma." The rise in sterling means "an obstinate recession" in Britain because ramshackle British industry can't compete overseas without a falling pound, and the domestic economy offers zero business prospects. The *FT*, recognizing this, proposes that stepping-up the plans for sterling as a world currency can solve the problem. "Dismantle exchange controls now!" they cry, so that sterling will be kept from rising too high by a massive outflow of sterling investment funds into foreign currency loans, third-country trade finance and foreign direct investment.

What neither the *Financial Times* nor the Bank of England's chief advisor recognizes, however, is the fact that without the IMF and/or the U.S. State Department to watch effectively over such an international sterling loan structure, the Bank England will be totally over its head. The world eco..omic climate implied by a terminal dollar crisis—necessary for sterling renaissance—would be negative economic growth and capital formation. Once sterling liquidity builds up to any extent outside Britain within that context, it would fall over of its own weight unless the Bank of England is prepared to raise its minimum lending rate not merely beyond its current 14 percent, but indefinitely, at increasing rates. At that point, borrowers would cease to borrow in any case.

Furthermore, reaction to the sterling renaissance idea in continental Europe implies that the EMS nations, led by West Germany and France, see the entire exercise as an amusing, if unwieldy, dinosaur. "Sterling might hold up as long as North Sea oil does," said one German banker," for a year or two. But is there enough oil in the North Sea to displace even the German banks as lenders in Europe? I doubt it."

—Kathy Burdman

FOREIGN EXCHANGE

Dollar rescue policy in the balance

Over the three-week span between June 14 and July 5, the dollar sank over 4 percent against the deutschemark, over 4.5 percent against the Swiss franc, about 2 percent against the Japanese yen, and over 5 percent against the pound sterling. Gold hit $288 an ounce. Toward the close of July 5 trading, the dollar rose on the White House announcement of intent to move fast on oil-import controls. Meanwhile, no central bank intervention was evident, except for the Bank of England tempering the pound's upward climb.

Since draconian energy measures can only hasten the wreckage of the U.S. economy and thus the dollar, the question remains, as we reported last week, whether France and Germany, which set up the European Monetary System a year ago to protect themselves and the U.S. from currency catastrophe, will throw in the towel—and if they do not, whether their rescue attempts will succeed. One of the best-informed West German investment bankers said privately this week that despite Bundesbank president Otmar Emminger's professed intent to keep raising West German interest rates (which tends to dislocate EMS fixed parities while pressuring the U.S. to tighten further) he expects Bonn to "force a deal" with Emminger to maintain the EMS. Yet Washington's incompetence means it will become harder and harder to keep the dollar out of trouble, he added.

The recent OPEC summit, meanwhile, resolved, according to *Oil & Gas Journal* and other sources, that if the dollar loses more than an additional 5 percent of its value, OPEC will consider recasting the oil reference price into "a basket of currencies." Whether to include gold in the basket would then be deliberated.

—Susan Johnson

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