GOLD

Remonetization heats up; bears burned again

It was a very bad week for gold market "bears." On Wednesday morning Sept. 5, the London gold price set a new all-time high of $329.25, up a full $14 from the afternoon fixing of Friday, Aug. 31.

The battle between continental European "bulls" and British "bears" produced an interesting trading pattern on both Sept. 4 and 5. Heavy selling out of the British Crown Colony of Hong Kong weakened the gold price in early morning trading, but a strong rebound followed when the European markets opened.

Hong Kong speculators are not the only ones to take a bath. The London *Economist* commented in a September article, headlined "At the Altar of the Golden Calf," that Swiss and other unnamed speculators had massively "shorted" gold during August, based on their perception that the gold price was due for a sharp downward correction or even a 1975-style outright collapse.

The rug was pulled out from under the "shorts" when West Germany's Dresdner Bank unexpectedly acquired 720,000 ounces of gold out of a total of 750,000 offered for sale at the U.S. Treasury Department's auction Aug. 21.

Now it is rumored that Treasury intends to terminate its monthly gold auctions before the end of this year. The reason is that, far from fulfilling their avowed aim of demonetizing gold, the sales have actually permitted foreign central banks and quasi-official agencies—Dresdner's reputed clients—to accumulate further gold reserves.

American investors left out

American investors, by and large, have not participated in the latest gold market rally, which has been powered instead by demand from continental Europe, the Middle East, and Japan. the lack of American interest reflects the poor advice relayed by U.S. brokerage investment consulting services, most of whom rely on either British or Anglophile Swiss

BRITAIN

Bringing Hong Kong back home

If British Chancellor of the Exchequer Geoffrey Howe has his way, Britain could beome the "new Hong Kong" within a matter of years. According to a front-page report in London's *Sunday Express*, Howe has dusted off proposals for the creation of special "enterprise zones" in Britain's decaying urban areas which would imitate the sort of "rip-roaring freedom from interference that has created boom conditions in Hong Kong." The zones would be free of all state control or interference except for the most token planning and safety regulations, the idea being that businessmen and entrepreneurs would be motivated to set up companies in Britain's derelict areas by the chance to make money unhindered by either red tape, high taxations or even the requirement to pay basic wages.

Now that the Tory government has virtually eliminated regional development grants, employment subsidies and other forms of state aid which formerly attracted industry, the "Hong Kong" gimmick is being used as a come-on for any company, even the most fly-by-night operation, to sethup shop in depressed areas like Glasgow, Merseyside and the London dockland. It is not yet clear whether the companies will be producing micro-chips, gambling chips or wind-up dolls, but Howe is apparently deadly serious about making the new zones a model for the sort of "free enterprise" policies which Thatcher has promised will usher in a new economic boom for Britain.

The idea of "boom zones" was first floated by Howe when he was Shadow Chancellor of the Exchequer in 1978, in a "kite-flying" speech which proposed the abolition of detailed planning controls by government agencies, except for "the very basic anti-pollution, health and safety standards." Further changes in the law would make the new developments free from rent control, exempt from land taxes and possibly also from utility charges. Price controls and pay policy would not operate

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sources for gold market intelligence. Most of these consulting services have advised their clients to prepare for a major gold market "reaction."

U.S. investors would have done much better if they had followed this column. In our July 31 issue, I reported that Dresdner Bank gold authority Hans Joachim Schreiber was predicting that gold would rise to a "fifteen-fold multiple" of the price of imported oil, placing it within a near-term range of $330 to $350 an ounce.

I also explained why we thought Schreiber's prediction made sense; namely, that the Franco-German led European Monetary System is a de facto gold-backed system, that the EMS member governments intend to protect the value of their gold reserves and have opted for a higher gold price to offset the effects of higher OPEC prices on their economies.

Although the "bears" can point to dozens of reasons why gold should fall on technical grounds (higher U.S. interest rates, declining jewelry demand, recession, etc.), all of their arguments share a common fallacy: they ignore the fact the the European *governments* and their intermediaries (notably Dresdner) are running today's gold markets, not blind "free market" forces. It is the emergence of the EMS as a political reality which has made Dresdner Bank, as the West German Business daily *Handelsblatt* recently characterized it, the biggest and most important gold bank in the world.

Europe's growing political rapprochement with the Arab world—based on support for a comprehensive Middle East peace rather than the separate agreement under a Camp David pact—is also a factor. The oil producer's surplus revenues will run at appoximately $30 billion in the second half of this year, a large chunk of which is likely to be invested in gold. Not accidentally, Saudi interests are reported to be among Dresdner's most important customers.

The role of the Soviet government in the gold rally must also be taken into account. Market experts estimate that Soviet gold sales in 1979 will fall short of last year's level by 25 percent, in what would appear to be a deliberate Russian effort to undercut the gold "pessimists."

—*Alice Roth*

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within the Enterprise Zones, and the Employment Protection Act as well as a number of other guarantees of employees' basic rights to decent working conditions could also be declared inapplicable.

Although Howe's proposals initially met with only guarded enthusiasm, the Tory government is now re-examining the proposals with a view toward swiftly implementing the necessary legislation. It is being emphasized in Whitehall that the examination of "enterprise zones" is only part of the Tory government's wider review of all suspected "constraints' on industrial development expansion, and innovation.

Although government departments are already working on turning Howe's blueprint into draft laws, local government authorities in the areas targeted to be "enterprise zones" have not yet been consulted on their views. One municipal official, however, gave his candid comment; "It seemed crazy at the time. This is not Hong Kong and as far as planning controls are concerned I am not all sure that Hong Kong is an example we would want to follow."

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Britain's vaunted North Sea oil wealth doesn't seem destined to do much for Scotland—at least gauging by Scottish reaction to plans, albeit still tentative, to build clusters of giant windmills along the Scottish coast to supply British energy in the 21st century. Some sources project that the giant devices, each requiring 25 hectares of land, and spaced at 500 meter intervals for safety, could supply twice as much energy as Britain now gets from hydroelectric sources.

But R. Turnbull, deputy chief planning officer of the Scottish Development Department, warned the British Association in Edinburg recently that the windmills would present a "major visual intrusion" on the Scottish countryside, would pose a hazard to flying birds, and create "significant" noise levels. The hazards of possible structural failure of the blades and flying ice in winter would force large areas of ground around the devices to be kept clear.

Among other so-called alternative energy sources, solar power remains popular among British environmentalists, but they admit that the island's foggy weather makes the use of solar collectors problematic.

—*Marla Minnicino*