maglev train system, said they expected that the door would be open for additional foreign contracts, such as in the United States, where negotiations on initial maglev routes are far advanced. The American government received Congressional authorization a year ago to spend up to $950 million for initial engineering work, as well as for the construction of a first test line. Rohkamm and Wackes said it was not unrealistic to set their sights on beginning construction as early as 2001.

These hints at renewed interest in the Transrapid in the United States became somewhat more concrete, with the visit of a delegation from Atlanta, Georgia. The 20 guests from the United States took a test run on the Emsland track on Nov. 8. Atlanta is among seven American urban centers which have been selected by the U.S. Department of Transportation for consideration for maglev projects. The transportation authorities of Georgia are considering a maglev route from Atlanta to Chattanooga, Tennessee. The construction of a part of this route, 40 miles, has been secured with a grant of $900 million from the U.S. Department of Transportation—the remainder would have to be financed by the cities of Atlanta and Chattanooga, the state of Georgia, and the participating industrial firms. No decision has yet been made, but the visit to Emsland is being interpreted as a signal that the transportation planners from Atlanta are seriously considering the Transrapid.

Prospects also for Southeast Europe

Following the talks in Beijing, there was also some movement in Europe on the Transrapid. In Berlin on Nov. 10, Wackes announced that his firm was now, after two years of preparation, in a position to report more concretely on perspectives for a maglev connection between Berlin and Budapest. The 1,250-kilometer line would run via Prague, Vienna, and Bratislava (Slovakia), and could begin transporting 40 million passengers per year in 2015. The construction costs are estimated at DM 26 billion, and, if construction is begun quickly, construction could be completed in 2013. The Berlin-Dresden-Prague line could be completed by 2011. The trains themselves would cost DM 1.6 billion, Wackes said.

The time to traverse the entire 1,250 kilometers will be about three hours, and, in addition to the cities already named, the Czech segments of the route will include stations at Pardubice and Brno. During construction, 60,000 jobs will be created, and 8,000 will be employed to run the system once it goes into operation. The construction itself will rely on capacities on site, so that it will have a positive effect on the economies of the Czech Republic, Austria, Slovakia, and Hungary. The engineering-technical studies for the project, were financed by the Kreditanstalt für Wiederaufbau (the German Bank for Reconstruction). The European Commission also participated in financing the studies in the context of planning projects for "Transport Links of the East to West Europe."

Bank of England behind latest gold price fall

by William Engdahl

The dramatic fall in the price of gold, between its recent two-year high of $325.50 per troy ounce on Oct. 5, and the closing price of $291 on Nov. 3, was more than the "workings of the free market." The timing of the sudden $9 drop in gold on Oct. 27, according to sources in the international gold-mining industry, was a result of direct manipulation by central banks, timed to take place on the day of the expiration of monthly over-the-counter (OTC) gold options contracts.

A group of mining companies, led by Australia's Normandy Mines, has come out publicly, in an open letter to the London *Financial Times* on Nov. 1, demanding that the Bank of England reveal in detail all its recent activities, not only in the market for sales of physical gold, but also in gold derivatives. Robert de Crespigny, president of Normandy, charges that the Bank of England indirectly took actions to depress the gold price for the critical date of the OTC options expiry.

According to de Crespigny, who is supported by three of the largest European gold-mining companies as well, the Bank of Kuwait "loaned" the Bank of England its entire 79 tons of gold reserves so that the Bank of England could cover the exposed "short" positions of certain gold speculators, who had bet that gold prices would fall.

On Sept. 26, a surprise decision by 15 European central banks to limit their sales of gold, or derivatives activity in gold, had a dramatic impact on the gold price, pushing it $45 higher in three days. The reversal of the gold price trend, sending it suddenly upwards after several years of steady decline, created a precarious situation in the world financial markets, and threatened to trigger a worldwide meltdown of leveraged gold-carry-trade loans worth billions of dollars, had the gold price continued to rise after the Sept. 26 announcement.

Selling borrowed gold

At the heart of the speculative gold bubble was a handful of some of the world's largest banks and hedge funds. This group of banks—bullion banks, so called because of their membership in the London Bullion Market Association—include almost all of the same leading banks which threatened to bring the global financial system to its knees in

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September 1998 through their huge loans to the offshore Long Term Capital Management hedge fund. These banks, including Goldman Sachs, J.P. Morgan, UBS, Crédit Suisse, Deutsche Bank, Dresdner Bank, and Crédit Lyonnais, comprise an elite group which fixes the London daily gold price and controls the market in physical gold and gold derivatives, so-called "paper gold."

These gold banks had speculated in the gold carry trade. As the same banks and hedge funds had done earlier in the yen carry trade, they bet on a "sure thing." In this case, they bet that, because of central banks', International Monetary Fund's, and others' plans to sell gold over coming years, the price was certain to continue to fall. When the Bank of England revealed its plans to sell fully half of its gold reserves beginning on May 7, 1999, the gold price dropped to close to $255 per ounce, a 20-year low. For the banks and hedge funds playing the gold carry trade, this represented pure, obscene profit.

The banks would sell gold they did not own, that is, gold they would lease for a specified term from select central banks. The gold remained the central bank's asset, to be replaced at a specified date, with interest, usually about 1%. The bank leasing the gold—Chase, Goldman Sachs, Deutsche Bank, or whoever—in turn, sold it for dollars or other major currency.

With the nearly interest-free dollars, they then would speculate in fast-rising financial assets to earn far more than the 1% they paid to lease the gold. If, say, in a year when the gold had to be repaid to the central bank, the price of gold had dropped, say, another 10%, the bank or hedge fund pocketed a hefty profit by repaying the lease with gold 10% cheaper, as well as banking the win on the speculation in stocks or other financial assets. In recent years, the U.S. S&P-500 index of stocks has typically risen 20-30% per year.

Crisis management nears its limits

When a group of continental European central banks banned together to pressure the Bank of England to join a de facto price support operation for gold on Sept. 26, the banks and others, including some of the largest gold mines, which had speculated on a falling gold price, were suddenly facing financial disaster. The total amount of central bank leased gold, which had served to build a huge pyramid of paper financial leverage, was reliably reported in London in early October to be "at least" 10,000 tons, five years' worth of world gold-mine production. At the present gold price, that would be worth about $100 billion. The problem was that there was not 10,000 tons of physical gold that could be gotten in the past weeks. The price threatened to explode higher, to $400 an ounce, and some even saw $600 per ounce by year's end as a possibility. "Had we hit $400 by December," remarked George Andersen, a European bank investment strategist, "the whole system would go into panic."

It is not surprising, then, that reports are circulating that the Federal Reserve, under Fed Chairman Alan Greenspan, has joined the Bank of England in secretly manipulating gold prices down to less than $300 an ounce, a price at which most banks can close out their gold loans with tolerable losses. The New York Fed has been reported by gold traders to have been quietly buying gold options on the New York Comex in late October, to push prices down. And, at the same time, the Bank of England is being charged with similar price-depressing manipulations.

The deliberate manipulation by the Bank of England, and the Federal Reserve, was obviously intended to prevent a chain-reaction collapse in the gold markets, which would rapidly spread to fragile stock and currency markets globally.

Manageable losses

The depressed gold price of $290 per ounce at the end of October allowed the large Ghana gold mine, Ashanti Goldfields Ltd., to avoid bankruptcy and to close out its large derivatives contracts with manageable losses. Had the gold price on Oct. 26 remained at $335 per ounce, Ashanti would have had a negative net worth of $570 million. Ashanti's bankers, which sold it the derivatives—called "toxic waste" by bankers, because the derivatives "sit there quietly and contaminate everything"—were led by Goldman Sachs and Crédit Suisse. Had Ashanti defaulted, the damage to the London gold market would have be devastating.

On Oct. 26, the day gold conveniently fell by $9 per ounce to $290, OTC gold derivatives expired for the month. By using "borrowed" Kuwaiti gold, the Bank of England technically avoided charges of having violated its agreement with the 14 other central banks not to increase its planned gold sales.

On Nov. 22, the next scheduled Bank of England gold sale of 25 tons will take place, keeping the price depressed, and allowing distressed hedge funds, banks, and gold mines to close out more of their dangerous gold derivatives exposures, and repay gold loans.

As with the secret bailout in June by the Fed and the Bank of Japan of the giant Tiger Fund's (another hedge fund) yen carry trade, the latest efforts by central bankers to prevent a blowout of gold derivatives positions held by some of the world's largest banks, does no more than delay by a matter of some weeks the inevitable day of reckoning in the global financial system. Their crisis management is rapidly nearing the end of its efficacy.

Some informed City of London and other European financial experts are anticipating that such crisis management efforts, as exemplified by the latest gold manipulations, might "work" into perhaps next February, at which point, they warn, a dollar crisis could combine with a stock and bond market crash to trigger a global meltdown. No doubt, the same banks involved in the gold carry trade will be in the center of that storm as well.