

other central banks do, namely, hold some reserves in bullion. London bullion dealers, while conceding that it is impossible to predict how 100 central banks will use their new freedom, forecast that, as a group, they will not be net sellers. They are more likely to provide steady support for a rising gold price....

Treasury's Sour Grapes

The following is an interview with a U.S. State Department official last week:

Q: What is the status of the Basel Agreement negotiated two years ago in which the major central banks limited their gold operations?

A: The agreement expires Jan. 31 and if it is to be renewed must be renewed at this week's Bank for International Settlements meeting. The U.S. is not pushing for renewal.

Q: But the U.S. imposed the agreement in the first place. Does this reflect pressure by European governments who want to trade freely in gold?

A: Maybe we don't want to rock the boat.

Q: If the agreement is not renewed, will central banks stabilize the gold market?

A: They will trade more freely at market prices and it should have that effect.

Yamani Suggests Tying Oil To Basket of Currencies

Saudi Arabia's Oil Minister Yamani granted an interview to the French business daily Les Echos, Jan. 11 at the conclusion of French Industry Minister Monory's visit to Saudi Arabia, excerpts of which appear below:

Q: Is the fall of the dollar having a baneful effect?

A: We do suffer from the fall of the dollar. It means heavy financial losses for us. We are deeply concerned about it. We raised that problem in the OPEC Economic Commission. At one point we thought of determining oil prices based on a basket of currencies rather than to the

dollar. It is not excluded that we implement such a formula in the future. Our study of the question will be completed by the next OPEC conference which takes place in Lagos, Nigeria, in June.

London Rumor Mill

Dow Jones, Jan. 11:

The dollar fell sharply against the main trading currencies in hectic dealings indicating that central banks in Europe and the New York Federal Reserve Bank have failed to come to grips with the dollar crisis.

The New York Federal Reserve Bank in particular is being strongly criticized by European foreign exchange dealers about its handling of the new U.S. policy of more active intervention. Dealers in Europe said the Fed hasn't satisfied the market's desire for forceful and aggressive action. "This isn't the time to be discreet" as one dealer put it.... The Swiss National Bank became particularly concerned and hastily issued a rebuttal.

Swiss National Bank President Fritz Leutwiler said the report of a "failure" was "completely inaccurate."...

However, according to an informed U.S. source in Europe, Leutwiler's comments overlooked a split in opinion among banking authorities over West Germany's reflationary efforts. It was stressed that the Carter Administration continues to believe the West German efforts have been "inadequate."

New York Times, Jan. 9:

Renewed selling put the American currency on the defensive again last week. It was apparently related to a belief that the intervention measures announced in Washington Wednesday could not be effectively employed.

"A decision to support actively the United States dollar does not alter the fundamentals," the (London — ed.) advisory service Forex Research Ltd. declared in a special report. The currency "is likely to slip further" before recovering somewhat in the second half of the year, it is predicted....

U.S. Must Remonetize Gold Reserves

The following statement was issued by the U.S. Labor Party Jan. 10. It was written by David Goldman, USLP Director of Financial Intelligence:

America's allies and friends among the major industrial countries have made us an offer — as of this week's meeting of central bankers in Basel, Switzerland — which this country must accept. At the Basel meeting, the chief central bankers of West Germany, Switzerland, and France informed outgoing U.S. Federal Reserve Chairman Arthur Burns that they are prepared to use their massive gold reserves as the fulcrum for a general restabilization of the world currency situation.

They have given the United States the chance to peg

the dollar back to gold, as the first step toward launching a new round of hard-commodity credits for international trade, with a hard dollar as vehicle currency.

In essence, this is what America's allies told Fed Chairman Burns: The situation is of the most extreme gravity. Your interest-rate juggling and other measures to support the dollar are miserably inadequate even in the short-run. If the United States refuses the responsibility of managing the world's reserve currency, Europe (and Japan) will exchange their surplus dollars for gold, and create the core-group of a new gold-based monetary system.

Europe will present a gold system to the United States as an accomplished fact.

What this means, in bread-and-butter economic terms, is extremely specific. Western Europe, seeking support from Japan, plans the *political reorganization* of international trade on a hard-commodity footing. This includes a political takeover of international credit flows for hard-commodity trade and investment flows, and the deliberate sinking of the speculative City of London markets. Rather than permit the flight of capital from the dollar to become London's play-thing, Western Europe will create a gold-based alternative market — and compel the United States to come in.

Acting together, the European central banks have the combined muscle to force the relocation of scores of billions of Eurocurrency deposits out of London and into the Luxembourg market. The Luxembourg project, originally conceived by the murdered West German humanist financier Jürgen Ponto, now has the committed backing of French and West German bankers, and a plurality of Swiss financiers.

The Luxembourg plan combines the centralization of European gold and money markets; the European banks will assemble the gold-reserve base for international lending, plus the capital basis for a new wave of lending to the Third World, the Soviet sector, and other markets for advanced-sector capital goods.

To guarantee Luxembourg's success in the very short run, the central banks will intervene on the gold markets to stabilize the "free market" price of the metal, at a price approximating the present \$170 per troy ounce. At the time of the August, 1971 debacle, when the U.S. stopped paying out gold to foreign dollar-holders and puffed the mass of offshore dollars into a monetary Frankenstein monster, the Europeans lacked the political impetus to correct the mess. In particular, they cowered before Henry Kissinger's London-inspired terror tactics, designed to keep both the United States and Europe bound to the speculative rule of the London-centered Eurodollar market. Now the Europeans have had enough.

The Jan. 31 expiration of the "Basel agreement," a two-year moratorium on central bank purchases of gold, gives the Europeans suitable legal cover for immediate action.

Within days, European central bank action to restore a stable gold price and related agreement to settle central bank accounts in gold, could wipe the City of London off the face of the earth. Sterling's \$20 billion boom during 1977 drew on no economic activity, only the chaos in dollar markets. England, which never had the industrial capacity to run a trade surplus under the pre-1971 gold exchange standard, never accumulated significant gold reserves. The City could not compete with a hard-commodity alternative for a single trading day; all its destabilization efforts against the dollar will only enhance the leverage of London's enemies, if Europe proceeds as planned.

How the United States Gets In

New monetary systems are not created by the drying ink on central bank declarations. Political forces establish monetary systems by dictating conditions of invest-

ment to private holders of capital. That is precisely what Alexander Hamilton did through the founding of the Bank of the United States, which compelled American holders of capital to accept the obligations of the Federal government as the single means of circulating credit. On the reverse side, London political forces began the attack on the integrity of the dollar by persuading the Kennedy and Johnson Administrations to permit the massive buildup of offshore dollar accounts outside of strict U.S. government control. The buildup of offshore dollars, subject to British manipulation, created the 1971 crisis, and the mortal crisis the United States faces at present.

Concretely, the Europeans have given us a golden opportunity to place the mass of international funds under the cooperative control of the Federal government and allied Republics abroad. The underlying economic content of this offer is the same as the economic basis of the Luxembourg project: divert international credit flows out of speculation and into trade.

Gold backing for credit is an internationally valid guarantee that the issuance of credit will be restricted to real productive uses.

If the United States revalues its gold stock, worth about \$50 billion at current market price, we will give the world a political guarantee that the reserve-currency role of the dollar will return to that of the 1950s, an agency of international trade and development. Accountants will become hysterical at the thought of returning the dollar to gold, whining — as does Lazard Freres' Albert Hettinger — that U.S. official liabilities to foreigners are four times our potential gold stocks of \$50 billion. Such whining should be ignored. We have spelled out in detail — and leading European circles fully agree — how the mass of official liabilities, the result of British-inspired neglect for the dollar, must be dealt with. Through the Export-Import Bank of the United States, the U.S. can transform these liabilities into trade credits for American industry, paying our debts abroad with hard American goods, and creating jobs at home. Under such a policy of bringing international liquidity to the requirements of sovereign republics, rather than the masters of manipulation in London, the dollar will quickly become the world's hardest currency.

Re-pegging the dollar to gold ensures the hard-commodity character of dollar lending.

As an interim measure, the Export-Import Bank of the United States has statutory powers to join European central bank operations in the gold market. By trading in bullion, the Eximbank could join efforts to restabilize the gold price, and denominate loans and deposits according to the dollar price of gold. By doing so, the Eximbank could obtain deposits at vastly lower rates of interest than currently prevail. Such operations on the part of Eximbank would establish, in advance, the trade link to a gold-backed dollar.

Should the United States fail to act, there is a trump-card aspect to the Luxembourg plan: the central bank-supported European money market will automatically become the primary source of international trading credits for American corporations! If Europe introduces a hard-commodity monetary alternative, it has the power to organize the U.S. private sector out from under the Carter Administration's nose.