
COMMODITIES

Copper price boom betokens creation of 'common Fund'

U.S. Administration officials based in Geneva reported Feb. 27 that the U.S. had officially reversed its long-term opposition to creation of a \$1.4 billion international "buffer stock" for copper. The announcement took government officials and New York metals traders by surprise, leading one metals analyst to tell the *Wall Street Journal*: "This is a bad idea whose day has come."

The announcement follows a three-week boom in copper prices on the London and New York Metals Exchanges. Copper is now trading at 1974 "crisis" prices of

£1,000/long ton in London, while U.S. copper producers have linked their prices to open market quotations of a record 93 cents/pound. The speculative rush into copper has also encouraged major jumps in silver, platinum and numerous other metals prices.

There are some indications that the copper price "boom" may have been rigged by London and allied metals traders to set the stage for implementing the "buffer stock" scheme. Moreover, the buffer stock scheme, which indeed is a "bad idea," would be a precedent for im-

plementing a worse one, the global "Common Fund" proposal which would centralize all raw materials purchasing in the same way.

The "buffer stock" idea originates with the World Bank/International Monetary Fund, and is now chiefly advocated by the United Nations Commission on Trade and Development (UNCTAD) in Geneva. It is based on the false supposition that Third World payments deficits and debts can be endlessly financed by "price guarantees" from industrial consumers. What such price arrangements ignore is that, so long as the producing countries are forcibly prevented from acquiring necessary loans for long-term industrial development, price manipulations amount to "looting" from the industrial countries to finance fixed, low levels of productivity and persistent industrial poverty in the developing countries. It is an inflationary merry-go-round which would benefit no one.

FOREIGN EXCHANGE

Cross-stabilization of yen and deutschmark is under pressure

The Bank of Japan spent around \$160 million in the space of a few days to brake the depreciation of ... not the dollar, but the yen. Between Feb. 20 and Feb. 28, the yen dropped from 199.65 to the dollar to 202.31. And while on Feb. 20 it took 108.1 yen to buy a West German mark, on Feb. 28 it took 109.5.

This decline of some 2.5 yen against the dollar and 1.5 vis-à-vis the mark could be important. First of all, stable mark-yen and eventually mark-yen-dollar rates are a

key initial goal of the nascent European Monetary System (EMS). Some of the EMS's creators have said recently that their specific target parities are three marks to the dollar and 100 yen to the mark.

Most obviously, Japan's economy and balance of payments are the most threatened of any single country's by the prospect of fuel-price gouging, supply cutoffs, commodity price-hikes and protectionism. Erosion of the yen would compound cost inflation. And this is

not to mention the present and potential destabilization of Japanese trading partners in Southeast Asia and the rest of the world.

Reports surfaced Feb. 26 that the Tokyo Ministry of Trade and Industry (MITI) will decide at its March 2 Export Surveillance Committee meeting to abandon the export restriction guidelines instituted at last July's Bonn meeting of Western heads of state. The *New York Journal of Commerce* cited MITI sources as expecting that "demand for Japanese products in global markets in the new year will be beneath that which prevailed in 1978," adding that in fiscal 1978 Japan apparently held to its limits on exports of cars, televisions, steel products and ships, and demand is not expected to rise.

Nevertheless, MITI's Toshikazu Hashimoto announced in Tokyo Feb. 26 after a trip to Washington, the Carter Administration has again

Alternative approach

In early Jan., a spokesman for U.S. National Security Council economics advisor Owen told a reporter that Owen was determined to push the Common Fund through at the March UNCTAD conference, to thwart West German and French efforts to launch an alternative, highly ambitious solution to producer-consumer conflicts over raw materials.

On Feb. 25, West German Finance Minister Matthöfer detailed what this approach must be in an interview with regional newspapers. He reported that Chancellor Schmidt is considering using the surplus dollars held by the Bundesbank to finance a major raw materials stockpiling program. Matthöfer emphasized that the purchasing agreements being considered would be tightly linked with allocations to Third World raw materials producers of substantial loans, which would then be used for

industrialization projects and technology transfers.

Price boom like Common Fund

Owen wants to wreck these European efforts — which also include negotiations for linking prices to development loans with 56 developing countries which jointly signed the 1975 “Lomé accord” with the European Community — because the U.S. Administration is committed to backing London’s policy of preventing Europe from making the European Monetary System the foundation for a new world monetary system through such arrangements with the Third World.

The recent boom in copper and other metals prices strengthens the joint London-U.S. efforts against France and West Germany. The price boom works on the same principle as the Common Fund: looting and weakening of the industrial sector in behalf of recycling surplus

dollars into Third World deficit financing.

A prominent New York analyst emphasized that this is now happening in Zaire, with Zambia on target. “Do you think Chase and Citibank,” he asked “wouldn’t get in on a copper boom if they thought it would protect their loans” to those countries?

The same analyst thinks the metals boom has just begun, predicting copper prices ranging from \$1.00-1.20/lb. in the short term; rising price patterns at least until the end of August; and a rush into agricultural commodities (especially beef) at the point that a massive inflationary crunch hits the western consumer, forcing consumers to concentrate on the “bare necessities.”

—Renée Sigerson

threatened to impose surcharges on imports from Japan. Some Japanese banking sources also indicated privately the Bank of Japan’s yen support reflects pressure from the U.S. Treasury Department not to help the dollar appreciate.

Alongside these superficial rumors is the real danger of Japan’s isolation. Even in the absence of the imminent potential for 1974-and-worse Japanese import disruption and inflation, the fact is that — especially given the brunt of its dollar-denominated trade financing — movements either way in the dollar-yen parity are counterproductive. Until there is a mark-led appreciation of the dollar in relation to the fixed-rate EMS, when the yen could comfortably return by some 67 percent of its unsought rate gain to the 300-to-the-mark level, there is no benefit to anyone in downward pressure on the yen.

—Susan Johnson

KEEPING TABS ON THE ECONOMIST

Our regular check on the accuracy of the London Economist turned up the following in the publication's Feb. 24 issue:

The economist

“Grand economic planning is long dead.”

“China’s thrust into Vietnam was circumscribed...”

“... the toppling of the Chinese-backed government in Cambodia by the Soviet-backed Vietnamese was the casus belli.”

If China achieves its limited objectives “it will have helped to make the world a slightly stabler place.”

The facts:

The European Monetary System is a clear refutation of this claim.

The Chinese met unexpectedly strong resistance from Vietnamese border militia.

China had planned its invasion of Vietnam before the overthrow of Cambodia’s Pol Pot, according to West and East bloc intelligence sources.

The Chinese have brought the world to thermonuclear Armageddon, as even British Prime Minister Callaghan implied in a speech Feb. 26.

—Richard Schulman