FOREIGN EXCHANGE

Dollar, sterling get brass knuckles treatment

The official November 1978 agreement among the U.S., West German and Japanese central banks to bolster the dollar faded out of the picture with the dollar's recent appreciation, "bubble" inflows into the U.S. currency, and oil-related pressures on the mark and yen. Now the situation has made a sharp, messy turn all the way from November, with the Bank of Japan and the West German Bundesbank taking tough behind-the-scenes actions and threats to keep flows into the dollar and sterling from drying up West German and Japanese credit markets.

The dollar sagged to 1.89 marks April 18, while the pound dropped a full percentage point vis-à-vis the mark to 3.9261 marks from 3.9674 the day before. The dollar decline was attributed by Frankfurt bankers chiefly to what they described as a German-led

lar is the vehicle currency for switching out of pound holdings.

Frankfurt and Tokyo, from a defensive posture, are out to preempt the strategy summarized earlier this year by Sir George Bolton, former chairman of the Bank of London and South America, who specified a dollar upswing, destabilizing Europe and Japan, that would soon devolve into a regional trade-war situation with the dollar wiped out once more. The recent credit-tightening by the Japanese and West German authorities (see International Credit) has only marginal effect in leveling international interest-rate differentials. However, it is backed by a cold threat to colossally dump dollars should U.S. interest rates move to the 13 percent level. According to West German sources, the Bundesbank has the concurrence of the Big Three German banks on this threat. Indeed, the week of April 16 one of them began selling off U.S. securities

GOLD

Treasury reverses policy on gold sales

In what may be a significant shift in Carter Administration policy, the Treasury Department announced on April 18 that it has decided to reduce the amount of gold sold at its monthly auction from 1.5 million ounces to 750,000. The Treasury decision appears to be a concession to Western European government and business leaders who feel that gold must play an important role in the world monetary system and object to the Treasury's efforts to depress the gold price artificially by dumping U.S. reserves on the open market.

The Treasury's formal statement to the press read as follows: "The amount of the monthly sales is being reduced in light of improved conditions in the foreign exchange markets and the fact that gold no longer appears to be a destabilizing factor in these markets."

The price of gold bullion soared on April 18 immediately following this announcement from $233.20 an ounce at the afternoon fixing in London to $241 in late afternoon trading in New York. The price had previously been extremely stable at the $240 level. However, on April 11, reports that Treasury Secretary Michael Blumenthal was pressuring Miller to tighten credit and forcibly deflate the U.S. economy had caused the price to drop to around $230-$233.

News of the Treasury's turnabout appears to have leaked out among German banking circles well in advance of the public announcement. Many U.S. traders were caught off guard by the strong demand for gold at the Treasury's last auction, held on April 17. The Treasury received bids for 2.2 million ounces on the 1.5 million being offered. As usual, the large West German and Swiss banks, including Dresdner Bank, Deutsche Bank, Swiss Bank Corporation, and Union Bank of Switzerland, dominated the bidding. According to German securities brokers in New York, German investors began liquidating their holdings of dollar-denominated securities and purchasing gold as soon as it became clear that Miller was not about to hike U.S. rates.

and sending out signals that it considers the dollar too high.

So Europe and Japan have thrown an inconclusive, short-term spanner into the works, that is, into the confident London predictions summarized April 17 by Bank of New York economist Harvey della Pena: U.S. rates draw funds out of Europe, then the dollar crashes, then everyone is in trouble.

It should be added that the pound's rough treatment by the West Germans was compounded in the markets by rumors that the Labour Party will win the May U.K. elections, implying an "Establishment" infight over how far and how fast to move with Tory Margaret Thatcher's frank foreign and domestic war policies.

—*Susan Johnson*

Future trends in the gold price fundamentally depend on whether the Europeans move ahead on their previous plans to build a gold-backed world monetary system based on European and Soviet collaboration to jointly industrialize the developing sector. Should this occur, the gold price will probably be stabilized at around $240. However, should Europe continue to hold back out of fear of confronting the International Monetary Fund, the London banks and their allies in New York and Washington could use the present easing in U.S. credit conditions to generate another round of inflationary commodity speculation and run the gold price up to $280 and beyond.

—*Alice Roth*

BRITAIN

British to close Europe's only integrated iron, steel, and tube-making plant

Union leaders have given up trying to figure out why the British Steel Corporation would want to shut down a fully integrated iron, steel and tube-making plant—the only one of its kind in Europe—which located in the heart of Britain's auto manufacturing belt. After waging a two-year long battle to keep production going at the Corby steel plant and its sister specialty steel factory at Bilston, the union chiefs have come up against a wall in their efforts to convince BSC bureaucrats of the plants' commercial viability.

Bilston's fate is being viewed by BSC as a test case of how far the steel unions are prepared to cooperate in the corporation's retrenchment plans. The Iron and Steel Trades Confederation (ISTC), which represents a majority of the Midlands' steelworkers, had threatened to call a national strike last year over what it claimed was the premature rundown of the Bilston plant. But the union organization has succumbed to BSC propaganda that overall economic growth and the demand for steel have entered a permanent trough. It also fears that a strike at Bilston might worsen industrial relations and precipitate further plant closures in the steel industry.

Although it will mean a 32 percent unemployment level in Corby and the effective destruction of a steelmaking town, which has been described as an "industrial island in an agricultural ocean," union leaders have acquiesced to BSC's strategy. With great bitterness, the ISTC has agreed to the closure of the two plants and settled for negotiating the best possible terms for those 8,000 skilled but older workers who have been thrown on the scrapheap by British Steel's cost-cutting policy.

There is no mystery surrounding British Steel's stone-faced response to the plight of the Bilston and Corby workers, who just ten years ago relocated their families to the area as a result of a major BSC recruitment campaign. Only two years ago they were encouraged to sink their savings into buying homes which will be virtually worthless when the steel mills close.

Using the code word "rationalization," BSC has implemented measures to strip down the old, high-cost steel industry in Britain in order to make way for the more streamlined and competitive line of products which fits in with BSC chief Sir Charles Villiers' vision of Britain's technological future. In an effort to dump some of its oldest and most inefficient capacity, BSC underwent major surgery last year, when over 17,000 steelworkers were permanently dismissed. To the extent that an upgrading of the British steel industry takes place at all, it will be for the sole purpose of supplying government defense contracts.

The fact that a relatively modest investment of about $30 million in either an electric arc furnace or other still experimental steelmaking processes to replace the obsolete open-hearth furnaces could restore the Midlands plants to the profitability they once enjoyed does not move BSC. Nor does the fact that British Steel will lose its market in the auto manufacturing field, for which the plants slated for shutdown have provided specialty orders on short notice.

—*Marla Minnicino*