

Sterling is clearly in no position to assume any significant burden whatever. It fell on May 10 to \$2.05 from \$2.07 after British engineers went on strike, the first fruits of the Tory "get tough with the unions" tactic. Brittan's notion that Thatcher could persuade the Commonwealth to return to an "Imperial preference" system implies a deterioration of world trade to the point that the advantages of open trade would already have disappeared. Under such circumstances the damage sustained by the now-dominant currencies in world trade might be great enough to permit sterling to back up from the monetary sewer.

American money managers are already bracing for the next major shock to the American dollar. During the past two weeks, money managers at large American financial institutions have been making informal commitments to European investment fund managers to revive the currency diversification in their

investments that prevailed during 1978. Last year, at the dollar's trough, a handful of American institutions, including Morgan Guaranty Trust and Drexel Burnham Lambert, began making foreign investments for portfolios that had formerly restricted themselves to domestic assets, including pension funds. The two-month stability of the dollar against the West German mark at roughly DM 1.89-DM 1.90 to the dollar almost wiped out the purchase of foreign securities, leaving some of the leading New York-based foreign brokerage houses with little to do. Looking six months down the road, however, both American and Western European fund managers have decided that the dollar will be dumped again.

How uncertain the dollar's momentary strength is shown up in the last two weeks' behavior of the dollar-yen parity. From a low of ¥225 to the dollar, the yen rose sharply to ¥214 on May 11. The rise began

after Prime Minister Ohira's statement May 4 that the yen should settle at about 200 to the dollar. However, prior to that statement, the Japanese central bank had spent over \$6 billion in a futile attempt to stop the fall of the yen, leaving the market suspicious of Japanese government capacity to make parities behave according to its wishes. The Ohira statement could not have provoked the yen's spectacular rise on its own. Rather, it intersected continuing lack of confidence in the dollar, turning the delicate speculative balance in the yen's favor.

—David Goldman

May 9 *Wall Street Journal* op-ed by Allen Meltzer, co-chairman of the Shadow Open Market Committee, an offshoot of the Mont Pelerin Society. Banking regulations must be made "uniform" and Euromarkets curbed to forestall "financial panic," writes Meltzer.

As part of this regulatory blitz, G. William Miller announced in a May 8 Columbia University speech that he has given up on mandatory Fed membership for U.S. banks and will entice them toward "voluntary" membership through lowered reserve requirements. He did not add that once they are in, they will be hit by a simultaneous jackup of both domestic and Euromarket requirements.

—Susan Johnson

GOLD

Ye olde gold reserve standard

Gold rose to \$252.25 May 10, close to its record high reached on Feb. 22 this year of \$252.35, and is expected to break the record within the next few trading days.

The reason, at least the rationale of the psychology of the markets, was summed up by the gold desk at NMR Metals, the New York subsidiary of London's N.M. Rothschild & Sons. "The new rise in the gold price simply reflects a general disenchantment with all currencies alike."

Led by Britain's new Thatcher government advisors at the St. James Society, this is the latest word being

put out to the world's supporters of hard money by the British gold bug circuit. The dollar is through, they say, it can't be saved; the new European Monetary System can't save Europe's currencies; Japan is about to go under in a sea of Iranian oil cutbacks; and we need a return to the old gold reserve standard of the pre-1914 era. Any American or continental European gold aficionado who buys this routine is digging his nation's grave in favor of a return to the pre-1914 British dominance of world money markets.

—Kathy Burdman