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DOMESTIC CREDIT MARKETS

Carter Administration moves U.S. economy into recession

Sharp declines reported in the last two weeks in a series of key indicators are now signaling that the U.S. economy is moving into recession.

- Durable goods orders in April suffered their sharpest monthly collapse in 11 years, down 8.7 percent to $77 billion.
- Housing starts this year are running some 20 percent below last year's levels.
- Industrial production last month fell one percent from March, the steepest drop since the 1975 trough.
- Retail sales adjusted for inflation have fallen every month this year and are now a mere .5 percent above the sales level one year ago. In current dollar terms, April's sales were also only .5 percent above March's.
- New orders for capital goods plummeted 13.6 percent last month, despite the plethora of rosy predictions for capital spending increases.

As this publication has detailed before, these statistics are the fruits of the Carter Administration's steady dose of high interest rates, spiraling inflation, export and capital investment restrictions, and energy blackmail through skyrocketing fuel costs, artificial shortages, and nuclear plant shutdowns.

The Administration's intent was graphically laid out by a manic Aflred Kahn, Carter's so-called "inflation fighter," before a May 16 meeting of the Investment Company Institute in Washington: "There's no way of avoiding a decline in our living standards. Americans are going to have to live with less. ... The sum total of the demands we are placing in the economy of ours ... somehow adds up to more than the economy is capable of supplying."

Kahn concluded that the only solution is to scrap the American System of progress and technological development, or, in his words, "the American expectation that things

GOLD

Euro-Arab-Soviet combination rigs the gold market

James Sinclair, the New York-based precious metals dealer, has a fascinating hypothesis concerning the forces behind the recent sharp runup in the price of gold bullion. The gold price which, during the month of April, had ranged somewhat listlessly between $230 and $245 an ounce, suddenly broke through the $250 barrier on May 10 and went on to achieve a $265.40 record high at the London afternoon fixing on May 22.

Sinclair's analysis appears in the May 10 and May 16 issues of his widely-circulated newsletter, headlined "The Russians Are Gone, The Russians Are Gone" and "They Are Going To Sock It To Us" respectively. Unfortunately, although he appears to have his facts straight concerning who is doing what in the gold market, Sinclair, like much of the Mont Pelerin Society-influenced "gold bug" circuit, is off base when it comes to making an accurate political and strategic assessment of recent gold market developments.

A reading of Sinclair would lead one to the conclusion that the Soviet Union, Saudi Arabia, and West Germany's second largest commercial bank, the Dresdner Bank, are somehow in cahoots to "sock it to" the U.S. dollar through a combination of oil and gold price hikes and that their ultimate aim is to replace the American currency with a basket of European currencies including gold.

This is linked to Sinclair's contention that some major new catastrophe is brewing in the Middle East, comparable to the October 1973 Arab oil embargo, and that the Saudis have gotten advance notice of this and are moving to position themselves in gold accordingly.

Sinclair reports, probably accurately, that the direction of the gold market has been shaped decisively by the following developments: *1)* The Soviet Union, since late 1978, has carefully rationed its sales of the metal in Western markets so as to avoid pushing the price down. Although the Soviets apparently sold significant amounts of gold in the

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must always get bigger and better."

Kahn was seconded by Energy Secretary James Schlesinger and his minion, Undersecretary John O'Leary. In testimony before a Senate Energy Subcommittee, O'Leary plugged for a sharp reduction in gasoline consumption, which he billed as "essential if we are to avoid significant supply shortages this summer." O'Leary was mimicked by C.C. Garvin, Exxon's chairman, who made no bones of his concurrence with Schlesinger to send oil prices through the ceiling in order to shut down the economy.

Then there was Leonard Silk, the *New York Times* chief economic reporter. Writing in his May 23 column, Silk proposes nothing less than the "Hooverization" of America. "For the financial markets," sneers Silk, "the good news, to rewrite Herbert Hoover, is that recession is just around the corner. ... Consumers, having tried to keep borrowing and buying ahead of soaring prices, are starting to give up."

Unforunately, Silk has put his finger on one of the important reasons why the poor statistics for April are in all probability not a one-month blip. The domestic economy has been living on borrowed time for at least the last two years, held up by the consumer borrowing bubble and sharp inventory buildup. In the absence of growth in capital formation and high-technology investment, there is every indication that this process is nearing its end. With no final consumer outlet, the cycle of corporations producing goods, selling to each other, and marking up inventories is approaching the point of drastic liquidation.

In the May 23 issue of *Business Week*, economics editor William Wolman points out that the severity of the monthly figures "shoots down the widely held theory that sluggish first-quarter spending was caused by weather and a later Easter." The Teamsters strike, although undoubtedly a factor in the statistical decline, similarly cannot account for the magnitude of the fall-off.

With the prospect of even higher energy costs coupled with continued gasoline shortages looming over the U.S. economy, Carter and his Thatcherite controllers in the Administration are readying this nation for a crunch that will then be the pretext for a de facto IMF takeover under "crisis management" conditions. The recession may indeed be just around the corner; but any illusions of any accompanying recovery—as long as the nation remains in the grip of U.S. Thatcherites—have about as much reality as imminent prosperity in the 1930s.

—Steve Parsons

Swiss market in early May, all of it was immediately taken up by an Arab (probably Saudi) interest, in what would appear to be a prearranged deal between the two parties. *2)* Since early May, Saudi and other Arab interests have moved repeatedly to shore up the gold price with huge purchases whenever the price appeared to falter. *3)* Dresdner Bank, which is reportedly acting as the agent for a Saudi investor, has purchased an unusually large portion of the gold offered for sale by the International Monetary Fund and U.S. Treasury in recent months.

Moreover, a few hints concerning Dresdner Bank's market strategy were dropped by the bank's Managing Director Hans-Joachim Schreiber at the May 15 opening of Dresdner's Hong Kong branch. Schreiber told Reuters that "the international price of gold could rise to between $280 and $300 per ounce before the end of the year" and "gold's monetary role will become more obvious with the establishment of the European Monetary Fund as part of the European Monetary System."

What kind of gold-backed monetary system?

The implication of Schreiber's remark is that Dresdner Bank's gold strategy is premised on a "second phase" of the European Monetary System (EMS) which has yet to be implemented. The key question is *what kind* of gold-backed EMS does Schreiber envision? Sinclair assumes that the dollar's reserve currency role will be junked and a pre-1914 (British-dominated) international gold standard returned to. That is, gold will be used as a weapon to impose energy conservation and other deflationary measures on the U.S. and the rest of the world economy.

In an interview with this magazine, however, a high-ranking Japanese official gave a very different view of the EMS's "second phase." This source saw the EMS as a Euro-Japanese-Arab collaborative effort to generate funds for Third World industrialization. He stressed that the EMS would be used to undercut oil market speculation by British and U.S. multis through the financing of new energy development projects in the Third World. The revaluation of Europe's gold reserves at $300 an ounce and the pooling of this gold along with dollars in the European Monetary Fund would provide the necessary reserve "backing" for such a massive financial undertaking.

Thus, Sinclair is probably correct in his view that the Saudis, Soviets, and West German banking interests have been conspiring to fix the gold price. He misses the boat when he assumes that it is the British version of a gold-backed monetary system that they are attempting to implement.

—Alice Roth