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West German and Japanese banks, unless clamped down on by their central banks and governments, will, unlike the New York banks who have already drawn in their horns, keep lending.

Throw into this situation a big jump in OPEC revenue, a dollar flow basically deducted from advanced-sector working capital, and intermediated by—whom? This is the question of "the big potato," as New York bankers in 1974 referred to the OPEC surplus. Rimmer de Vries of Morgan Guaranty estimates that an increase of 25 percent in oil prices this year will add almost $30 billion to OPEC's oil receipts, resulting in a $25 billion current account surplus. The Treasury Department's projection is a $30 billion surplus, from $12 billion in 1978.

Since 1974, the largest portion of Eurodeposits has come from OPEC and, since under present political circumstances OPEC is unlikely to increase its holdings of U.S. Treasury paper, the issue becomes which banks and which currencies get what amount of deposits. The May 21 London *Financial Times* banking survey, article entitled "Borrowers' market prolonged," which states that "monetary growth will remain quite restrained in nominal terms, and possibly again negative in real terms; but this does not necessarily mean that the Euromarket growth will slow down. That depends much more on the investment preferences of depositors and the denomination of borrowing demand."

Most unsettling to the IMF strategists, the "investment preferences" of OPEC or of a very wealthy subgroup could include placements with Japanese and European banks to finance large-scale advanced energy development projects, in the context of the producer-consumer cooperation advocated by France, Mexico, Czechoslovakia and Saudi Foreign Minister Prince Fahd. Financing instruments, moreover, could include the issuance of long-term gold-backed bonds, as discussed by Lyndon LaRouche, author of the International Development Bank proposal, and the founder of the European Monetary System starting last year. *Business Week* notes that reserve imposition is only "part of a strategy to alter radically the shape of the international financial system for the 1980s," based on "swapping new SDRs for excess dollars." The June 2 London *Economist* proposes lending limits, along with tight money and far higher interest rates, while the *Financial Times* emphasizes qualitative controls on the direction of lending in addition to quantitative ceilings.

—***Susan Johnson***

GOLD

Gold conforms to Dresdner's projection

The gold bullion price achieved a new record high of $280.75 an ounce in London trading on June 6, confirming Dresdner Bank Managing Director Hans-Joachim Schreiber's May 15 prediction that gold will reach between $280 and $300 before the end of the year. Dresdner Bank and its Saudi clients have in effect "fixed" the gold market at a new higher level in order to offset the oil price effect on European current accounts by increasing the value of government-held gold reserves and expanding the credit potentially available for financing Third World development.

A distorted version of the above analysis has begun to make its way into the U.S. press. Conti Commodity's research director, Paul Sarnoff, told the *New York Times*' H. J. Maidenberg, in an interview appearing on June 4, that "in recent weeks, the price of oil has replaced the dollar as the barometer of gold's market value.... As oil-fueled inflation worsens, many countries will have to print more paper money and to make it more acceptable to the public, they may have to back it with revalued gold reserves. Thus, higher values on gold reserves held by governments may be set."

Some analysts now predict that gold will shortly undergo a sharp downward "correction" based on the unfolding world recession, which will ostensibly reduce industrial demand for the metal and enchance the attractiveness of interest-bearing paper instruments. Such forecasts ignore the fact that gold is not just any commodity but a *political* instrument.

Precious metals trader James Sinclair reports that Dresdner Bank halted gold purchases in the open market last week. Sinclair suggests that Dresdner may have decided to permit a temporary market correction which could push gold down to as low as $250; the bank will then buy heavily and run the price back up to $300—the entire operation taking place within two months. If Sinclair is correct, forecasters of a long-term gold collapse may be stepping into a big bear trap.

—***Alice Roth***

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