Carter sends gold flying

The strategic posture of the United States in the face of the Soviet Union has made more to do with soaring gold prices in the past week than any market factors....

Continental European investors took one look at President Carter's response to the Soviet intervention in Afghanistan last week and made a mad dash for gold, bidding up the price to an incredible $777 an ounce on Jan. 16. The European perception is that Carter is leading the U.S. toward a military showdown with the Soviets, which the U.S. at this time could only lose. The run into gold is Europe's overwhelming vote of "no confidence" in Carter, the U.S. strategic position, and the future of the U.S. economy.

The initial surge of gold buying last week came from large West German banks, who most likely were acting on behalf of Middle East investors as well as their traditional European clientele. Most of this European buying involved cash purchases of physical gold, ignoring the U.S. futures markets where regulators have attempted to crackdown on speculative activities in silver.

The European-led goldrush also came in the wake of the Jan. 5 Bank for International Settlements meeting in Basel, Switzerland, where the French and West German central banks vetoed a plan for coordinated central bank gold sales to drive down the price. According to a Bundesbank source, the West German bank actually threatened to *buy* gold if other central banks sold it.

The French and West German refusal to part with their gold stocks in turn forced the U.S. Treasury to back down on its plans to hold further gold auctions. It would be inappropriate to sell gold in an "unsettled, uncharacteristic marketplace," said G. W. Miller. Following Miller's remark, gold immediately shot through the historic $700 barrier. The Treasury's nine-year campaign to "phase gold out of the international monetary system," which began when John Connally ended dollar-gold convertibility in August 1971, is now as good as dead.

The intensity of the gold panic has terrified even British policymakers, who had previously hoped to use gold's rise as a club to enforce new austerity measures in the U.S. The British now fear that the flight into gold could so discredit Western currencies as to leave only the gold-backed Soviet ruble standing. In a Jan. 12 editorial, entitled "Leave Gold Alone," the *Economist* raved that the French and West Europeans had "turned chicken" when they turned down the plan for joint gold sales.

The key question now is: Are French and West German policymakers merely building gold-lined bombshelters or are they taking positive steps to end the war danger and coordinate with the Soviets to construct a new gold-based world credit system. French President Giscard d'Estaing is preparing a proposal for substantial international monetary reform to be presented at the April economic summit in Venice. This plan, according to top French sources, may be similar to the proposals of U.S. presidential candidate Lyndon LaRouche, who has suggested that the European Monetary Fund issue gold-backed bonds to soak up excess dollar liquidity and invest the proceeds in Third World industrialization projects. Should the European plan succeed, the gold price could stabilize at substantially below present levels.

But April is a long time to wait, and, as long as the threat of a U.S.-Soviet confrontation hangs over us, the price of gold might as well be infinity.