

pre-eminence. It this official, the dollar could conceivably stabilize and the world economy "recover" during 1978, if European governments are forced to reflate, Carter's energy program is passed, and U.S. interest rates are hiked, but this will only lead to a bigger "collapse" in 1979.

Recognition of the temporary character of the present measures has already begun to depress U.S. capital markets. On Jan. 5, rose 7 points in the morning, only to close more than 8 points down on the day.

Helping to spark the market's decline was a *Wall Street Journal* lead article indicating that some leading New York commercial bankers are less than enthusiastic about the effectiveness of the intervention. David Rockefeller, chairman was quoted: "Market intervention can't stop a trend, but it can damp the amplitude of swings." Morgan Guaranty's chief economist Rimmer deVries stated: "A little extra intervention isn't going to have a lasting impact." Worse, deVries contended that the former Blumenthal policy of intervening only when markets are disorderly had not been changed.

Herstatt Casts Its Shadow

During the last week, foreign exchange markets have been more volatile than in any period since the chaos following the August 1971 floating of the dollar. The rapid currency shifts, *Le Monde* economic columnist Paul Fabra warns, could set off another "Herstatt" crisis — a reference to the 1974 failure of a small West German bank due to foreign exchange losses which nearly brought down the entire Eurodollar market.

Before the intervention, Dow Jones reported a rumor that Dresdner Bank, the second largest German bank, had suffered major foreign exchange losses. The rumor was denied by a Dresdner spokesman. A New York foreign-exchange chief indicated that "two or three" German banks might be in trouble, both big and small, especially those which had invested heavily in dollar-denominated Eurobonds. There is also the danger of major losses incurred as a result of the central banks' "bear squeeze" operation against those who speculated on a further dollar decline.

Whether the rumors are well-founded or not, the table below demonstrates the risks inherent in the current monetary crisis.

—Alice Blythe

Run Into Gold Puts Pressure On U.S.

Gold bullion not only served as the key short-term lever for Western European and Mideast financial leaders during last week's dollar crisis, but it appears that the crisis is speeding up these policymakers' timetable for restoring gold's role as a stabilizing medium of world reserves and trade payments. The Jan. 4 modification of the U.S. Treasury's dollar sabotage was in large

Treasury. In bank chief Fritz Leutwiler to Japan last week to beef up dollar-support coordination takes on added importance.

But little more has surfaced regarding the West German, Swiss and French central banks' intentions to remonetize gold, an option intricately bound up with NATO and Arab-Israeli

GOLD

measure forced by what New York's best-informed gold dealers described as a heavy Arab switch from dollar holdings into gold — not, these sources emphasized, as a speculative attack against the U.S. currency, but "merely for gold's measure of value. They've just had it with paper (investments)

One analyst described the moves as the first time since the 1974 oil crisis that gold was used as "an alternative to money" rather than just a hedge against currency depreciation. Moreover, the relative stabilization of the dollar toward week's end allowed Mideastern and European holders of dollars to buy gold without disrupting the exchange rates or taking fire-sale losses.

The international role of gold was further underscored by two financially significant trade deals — the USSR's swap of gold for wheat with the U.S.-based Continental Grain Co., and Kuwait's agreement to take South African gold in payment for petroleum. On the central bank level, Japanese monetary authorities were reported to be buying gold to beef up the slim bullion portion of Japan's resources, despite contrary pressure from the U.S.

The U.S. and GOLD

After the "swap" activations, there were various press speculations that, in order to repay the foreign currency the U.S. had borrowed from central banks abroad in order to perform support purchases of dollars, the U.S. Treasury might have to sell gold, since — as the need for the swaps implies — the Treasury has so little foreign exchange holdings of its own. Thus the U.S. would be put in the position of an Italy pawn its bullion to pay its debts, and confidence in the dollar would erode further.

A former linchpin official in the Nixon Treasury Department, however, commented on Jan. 6 that Congressional traditionalists would be unlikely to permit American gold reserves to be bled away. Instead, suggested, they would legislate a change in the present official price of \$

an ounce — giving the U.S. a soundly-based total of over \$5

prospect of a speculative run against the dollar. Moreover, having ended the quite nonsensical U.S. refusal to acknowledge the higher value of gold, the U.S. would then be in a position to more or less willingly join the international gold-clearing arrangements blue-printed by the assassinated West German banking leader

Jürgen Ponto, and add American weight to the Euro-Arab gold fulcrum being set up this month in Luxembourg.

This specialist clearly projected such arrangements as an expansion of liquidity available for world trade financing, rather than a something-to-hang-onto fetishization of gold. No such programmatic thrust has been made in the open, however, since Ponto's incomplete mootings in the summer of 1977. And it is the lack

the monetary setups required for trade and investment expansion that have permitted doom-of-the-dollar pundits to dominate post-Jan. 4 commentaries. At week's

end, London-linked gold traders were still confidence that "gold will never be remonetized" (a development that would shake out both the worthless pound sterling and the London merchant banks' plans for preying on a negative-growth world economy). Who cares about Europe, they said, as long as London and New York control the gold markets? At the same time, spokesmen like Paul Fabra of *Le Monde* were insisting that any capitalism worth the name requires long-term credit and monetary stability for growth; but if it were to be proven what transatlantic pro-development forces will do to secure the gold underpinnings which represent a necessary, if far from sufficient, condition for world recovery.

British Wave Of Terror In Europe, Middle East

A wave of terror and assassination is sweeping Western Europe and the Middle East. Involved are British intelligence, the British-linked Moshe Dayan networks in the Middle East, and British terrorist networks on the continent, now in the process of regroupment following a series of successful arrests of leading terrorists by European police and security forces.

While some of the incidents have as their target specific individuals — in particular those involved in the current Middle East peace negotiations — much is "confetti": apparently random violence which is intended to build a climate of terror while deflecting scrutiny and countermeasures from the Whitehall and Wormswood Scrubs Prison headquarters of British MI-6 and MI-5 intelligence organizations. In seemingly endless array of terrorist organizations count as their members seasoned professionals who are recycled from this "left" terrorist group to that "right-wing" movement and back as British intelligence scenarios are worked out for the destabilization of governments orienting their policies toward peace and global economic development.

As the grid below shows, there is no truth to the claim that the violence is a product of an "intelligence war" involving Syria, Egypt, and the Palestinians; terrorism is strictly a British operation.

London

Jan. 1: Two employees of the Syrian embassy in London were killed when a bomb exploded in their automobile.

On the same day, so-called radical Palestinians seized the Arab League office, located in the same neighborhood as the killing of the two Syrians.

Jan. 3: Said Hammami, the Palestine Liberation Organization representative in London, was assassinated by terrorists, neighborhood, according to *Agence France Presse*. Hammami was a leading proponent of Middle East economic development as the basis for a comprehensive peace settlement. As British intelligence knew, Ham-

mami was key to arranging meeting in London between propeace Israeli officials and the Palestinians.

According to Israeli attacked British imperialist presence in the Middle East just days before he was murdered, pledging to eliminate their influence on the governments and policies of that area.

The PLO, in a statement issued in Beirut, said that it would hold British authorities responsible for the murder until the criminals were brought to justice; a Scotland Yard spokesman said that "it will be extremely difficult to capture the

In Geneva, the PLO's representative said that although operatives of Israeli intelligence may be directly responsible for pulling the trigger, it was President Carter's pro-British National Security Advisor Zbigniew Brzezinski who gave the green light to the terrorists by stating last week that the world may say "bye-bye PLO."

Middle East

Jan. 2: An Air India Gulf region crashed on take-off from New Delhi. Witnesses at the scene heard explosions immediately before the plane, carrying 260 passengers, went down. The Indian government suspects sabotage.

According to radio reports, the passengers were largely skilled technicians heading for job assignments in the Persian Gulf oil sector. The crash, which killed all the passengers on board, followed by barely a week an unsubstantiated *New York Times* article planted by U.S. Energy Secretary and appearing under Seymour Hersh's byline, claiming that the Saudi Arabians were facing cutbacks in their oil production due to "technical difficulties." Three days before the crash, Air India's London office received a threat from the radical Hindu International Proutists group that they would blow up an Air India airline.

Progressive Utilitarians — assassinated an Indian