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Monetary crisis: dollar weak — gold strong

Intereconomics

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COMMENTS

Monetary Crisis

Dollar Weak — Gold Strong

Under strong speculative pressure the price of gold in Zurich and London broke in the middle of May through the legendary sound barrier of 100 dollars per ounce troy. And the higher gold climbed, the further plunged the dollar. The gold boom, on the one side, and the weakness of the dollar and the monetary crisis, on the other, are clearly somehow related.

Despite its demonetisation gold is still held in high esteem. Mounting industrial demand, stagnating gold production, currency uncertainties and waves of speculation have pushed the gold price up. At first it was assumed that rich oil states and others had taken to gold as a haven for their money when they came up against the financial barriers of the hard currency countries. But there seems to be a substantive connection between the upsurge of the gold price and the so far abortive US efforts to restore confidence in the battered dollar. The flight into gold is a reflex of the Watergate affair, escalating inflation, fresh devaluation rumours and, above all, the emergence of a large balance of payments deficit in the first quarter of 1973. After covering operations speculators once more gained the upper hand. A vicious circle followed: gold purchases depressed the dollar, and the falling dollar rate pushed up the price of gold. There is a tendency in many places to look at the gold boom and dollar weakness as harbingers of another monetary crisis.

The lively buying interest for gold bars and coins at German bank counters shows that when inflation is rampant people will resort to the old remedy of hoarding gold as an investment in kind which will keep its value. All the demonetisation attempts notwithstanding, the pull of the "barbarous metal", as Keynes called it, is seen to be stronger than material facts. A gold price of \$ 130-150 an ounce has been forecast for the next few months. zz.

FRG—USSR

The Brezhnev Visit

The cardinal topic at Leonid Brezhnev's talks in Bonn were the efforts for an extension and intensification of the economic relations between the

Federal Republic of Germany and the Soviet Union. The real issue was not the enlargement of existing bilateral trade exchanges, but the discussion was in the main about the Soviet Union's concept of "economic cooperation". It is on this concept that the ten-year agreement on the development of economic, industrial and technical cooperation is based. It envisages the execution of joint projects for which the Federal Republic would provide technological know-how and loans and the Soviets labour. The Soviet party chief sees opportunities for cooperation also in the raw materials sector.

When examined coolly, the implementation of this concept, which so far exists only in rough outline, is seen to involve formidable problems. The exploitation of the Soviet raw material reserves will be the work of three to five decades, whereas the German firms are more interested in enterprises for the medium term. Besides, such vast projects are probably far beyond the capabilities of any partner in the Federal Republic. The establishment of international consortia would be a solution, but the Soviet preference for bilateralism is against them. Problems are also created by the current economic situation in the Federal Republic: with productive capacities for the most part used in full, there are only limited opportunities for placing additional contracts. Another point is that the Soviet Union is not willing to pay market rates of interest for the finance needed for long-term transactions. Credit creation by the State to give German exports a further boost could not be reconciled with the current stabilisation measures in the Federal Republic. ch.

Africa

Israel's Dwindling Influence

Burundi was the seventh African state to break off relations with Israel. Its step is an early response to the "Resolution on the Question of Israel" adopted at the 10th annual OAU meeting in the Ethiopian capital of Addis Ababa at the end of May. This resolution was couched in the strongest terms yet used by OAU on the subject. The countries of North Africa can look on Burundi's decision as another success for the demands which they in particular have been pressing.

Israel has already reacted to Burundi's step. The economic sub-cabinet in Jerusalem has decided