

The Watergate Dollar

The price of gold roared up to \$128.50 in Paris yesterday—an utterly unprecedented leap away from the dollar. Just the day before the gold price had climbed above \$100 an ounce for the first time in history.

In European money markets, gold buying—and the unloading of United States dollars—took on panic proportions. The message coming from everywhere, as one dealer put it, was “get out of dollars at all costs.”

What has produced the speculative run on the dollar? While it is impossible completely to explain speculation of a kind that one London trader called “totally irrational and self-feeding,” the immediate cause of the present run on the dollar can be summed up in a single word—Watergate.

The scandals surrounding the American Presidency, weakening the ability of the Nixon Administration to manage its severe domestic and international economic problems, have suddenly burst into the consciousness of dollar holders throughout the world.

The enormous volume of dollars held abroad has steadily increased as a result of persistent deficits in the United States balance of payments. In this year's first quarter, that payments deficit exceeded \$10 billion.

Domestically, the Administration's blunder in prematurely lifting Phase 2 economic controls has unleashed a renewed burst of inflation, which could be worsened if the rapidly advancing economy overruns its capacity limits or if the relatively quiescent labor movement turns militant in the face of sharply rising living costs.

Merely technical solutions to these problems will not suffice. It is impossible to see a satisfactory resolution of the nation's economic strains that will not require as its basic condition a restoration of confidence in the integrity of the United States Government and in its power to govern.