

Gold by Alice Roth

Will France put gold on Venice agenda?

Central banks have put a \$500 floor under the bullion price, while everyone wants to hear Giscard's undisclosed plan.

French President Giscard d'Estaing is expected to advance a sweeping proposal for international monetary reform, including a plan to enhance gold's role, at the upcoming Venice summit of Western heads of state. Although Giscard indicated that he was preparing such a plan as long ago as last December, French officials declined to give any details and since then few references to the plan have appeared in the press.

However, in a recent issue of his *Green's Commodity Market Comments*, analyst Charles Stahl predicted that Giscard's plan would have a major impact on world markets: "Valery Giscard d'Estaing will come up with some kind of proposal to enhance the role of gold in the monetary system. We do not believe that [his] proposal will be accepted ... but the mere expectation ... should add fuel to the bullishness..."

The Giscard plan was also the subject of an editorial in the May 12, 1980, issue of *Barron's*. *Barron's* stated that Giscard would probably propose "some form of link between the EMS and other major currencies, such as the dollar and the yen. Central banks would be empowered to maintain stable exchange rates partly by buying and selling gold." *Barron's* also quotes a French official as saying that there will be "a recognition of gold's proper role as a monetary asset."

The heightened speculation

concerning Giscard's monetary plan occurs amidst mounting signs that both the French and West German governments are prepared to move independently of the U.S. in the foreign and military policy spheres. Just before Carter's failed Iranian "rescue" mission, the two governments had fallen in line behind the U.S. in a display of "Western solidarity" and there were even some rumors that Giscard would drop his monetary proposal. However, in the wake of the "rescue" mission fiasco, the view in Paris is that the Carter administration is dangerously adventurist and unstable. The crisis has apparently given Giscard cause to recall his own December speech, in which he stressed that the only way to secure world peace was to build a new monetary system that could solve the problem of Third World underdevelopment.

The threat of a new French initiative on gold has caused some consternation in the Anglo-American financial establishment. Brookings Institution senior economist Robert Solomon commented May 13 that Giscard "would never dare" to propose an expanded monetary role for gold and insisted that the French would, at most, suggest a new petrodollar recycling mechanism to roll over Third World debts. However, as Solomon admits, Giscard's actual plan is a closely guarded secret. When Solomon went to Paris to find out about it and asked his "close

friend" Bernard Clappier, the former French central bank chief, for the details, Clappier said he had asked Giscard the same thing and was told: "Figure it out for yourself."

Meanwhile, New York traders report that some Western and Eastern European central banks have been regular buyers of gold whenever the price dips below \$500 an ounce. This central bank activity could indicate that European governments have an informal agreement to support the gold price at the \$500 level. Rumor also has it that Bank for International Settlements chief Jelle Zjilstra is proposing a "band" within which the gold price would fluctuate, as a countermove.

The gold market has been in the doldrums since February because of the international credit crunch which has caused private investors to liquidate their gold holdings in favor of high-yielding debt instruments. This downward pressure on the gold price has been neatly counterbalanced by central bank and Middle Eastern purchases as well as by the fact that two major sources of gold supply, the U.S. Treasury and the International Monetary Fund, have withdrawn from the market. The Treasury has not held a gold sale since November, in belated recognition of the fact that the effort to demonetize gold has failed, while the IMF's mandate to auction its gold expired this month.

As a result of this standoff in the "supply-demand equation," the gold price has moved in a narrow range between \$500 and \$550 in recent weeks. Depending on Giscard's long-awaited monetary plan, the gold markets could spring alive again.