

## Gold is back on the international agenda

by Richard Freeman

French Treasury director Jean-Yves Haberer, president of the European Community's Monetary Committee, stunned a meeting of French national financial counselors June 4 by telling them that gold will recirculate in a large way between central banks. No one listening needed to be told what this would mean: eventually—and quite probably quite soon—gold will return to its pre-eminent role in the world monetary system.

Haberer's remarks were delivered in an atmosphere of bullion's upward movement. From a level of \$501 per troy ounce May 22, gold rose to \$624 per troy ounce by June 9, or an increase of nearly 25 percent in three weeks, before settling back a little.

The reason for this increase is, as Haberer's statement indicates, political prearrangements to bring gold back as a monetary standard of value. Until 10 days ago, most gold market trading was light, indicating not volume panic hedge buying in response to the eruption of international hot spots, but the steady activity of insiders who know that something far bigger is in the wind.

### The move toward stability

The context for Mr. Haberer's speech is the upcoming summit of the heads of the leading seven Western nations—the United States, Germany, France, Great Britain, Japan, Italy and Canada—to discuss economic and military matters in Venice June 22-23.

It has been widely reported since the turn of the year that French President Valéry Giscard d'Estaing has been so thoroughly dissatisfied with the inflation and econom-

ic malfunctions associated with current International Monetary Fund-based arrangements that he had worked out a plan to launch gold into the monetary system which he will present at Venice.

Haberer, whose current European Community position places him in charge of overseeing the pace of implementation of the EMS, addressed this subject in his June 4 address, which was entitled "The European Monetary System: An International Monetary System." He told the gathering of French financial counselors that the principles inspiring the EMS are "subversive—but in a positive sense." The subversiveness of the EMS resides precisely in the ability of that system's gold-backed "European Currency Unit" to serve as the means of putting gold into circulation between central banks. This of course would make gold more than simply a static reserve asset, locked away in central bank vaults.

Taking aim at the International Monetary Fund and its Special Drawing Rights, Haberer asserted that "the ECU will be able to threaten the credibility of the SDR." The EMS will set the priority of "monetary stability" in a world beleaguered by a "non-system."

Haberer added that the second phase of the European Monetary System—the creation of the European Monetary Fund—may have to be delayed because of the world economy. Other alternatives are cropping up.

### Recycling OPEC dollars

Haberer's speech was described by one member of the audience as "aggressive and on the offensive." Its

emphasis on the role of the gold-backed ECU was not a matter of personal discretion, but a policy option that has emerged on the highest level, involving the support of Giscard, West German Chancellor Helmut Schmidt and European business leaders. The idea behind the the ECU is to couple it to financing terms enabling the Third World to import Western capital goods.

The fundamental element involved in this conception is to recycle to the LDCs the petrodollars from the Arab oil states deposited in official European Community financial institutions as well as the French and German private banking systems. The ECU would be a denominating instrument for this relending.

At a June 9 meeting of European Community finance ministers in Luxembourg, French Finance Minister René Monory said that "the world is in a major financial-economic crisis" requiring a "new institution to recycle petrodollars." The old arrangement of the IMF can be partially used for recycling, Monory stated, but in order to do this, the IMF will have to soften its conditionalities, which often involve severe austerity.

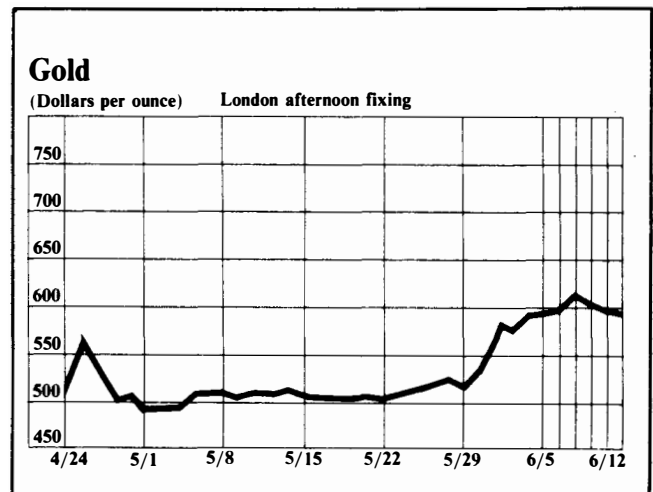
Aside from the IMF, Monory suggested that Europe can recycle its petrodollars through the European Investment Bank (EIB). The EIB, previously controlled by the British, has recently come under the influence of a "German faction." Monory specifically proposed that the bank, which makes on average \$2.5 billion in loans per year mostly inside the Community, issue gold-backed ECU assets to the Arab Gulf states geared to "more technology in rural areas of the Third World," and other development efforts such as "harnessing African rivers for irrigation."

Reliable reports from Bonn indicate that Chancellor Schmidt convened a secret June 1-2 meeting of top scientific and financial experts, excluding by and large members of Count Otto von Lambsdorff's economics ministry. The word is that Schmidt stressed at the meeting two proposals he will make at the Venice Summit: first, a petrodollar recycling plan, and second, a plan for the full-fuel nuclear energy cycle.

### The Soviet gold angle

With the Europeans and the heavy-gold purchasers of the Arab Gulf states discussing gold arrangements, the Soviet Union, a third important player in the world gold game, entered the picture this past week.

This was telegraphed in the June 7 *New York Times* report that the Soviet Union may have sold 200 tons of gold off-market to Saudi Arabia at \$600 per ounce. The June 9 *London Daily Telegraph* reported that part of the Soviet gold may be paid for with Arab oil, and predicted that the price of the metal will hit \$930 during some point in 1980.



Strategic analysts have not lost sight of the fact that the alignment of players involved in the gold market—France, Germany, the Arab Gulf nations, the Soviet Union—has important political significance. A Middle East peace initiative involving the creation of a Palestinian state is something all the above nations are known to support in varying degrees. Rumors have it that such an initiative might be "cemented in gold."

The emergence of this gold initiative is at the moment a threatening one to the London-Amsterdam-Wall Street axis of finance. A characteristic response came June 9 from Dr. Jelle Zijlstra, president of the Bank for International Settlements, as well as the president of Netherlands central bank, on the occasion of a BIS meeting in Basel, Switzerland. The June 10 *New York Journal of Commerce* reports that "In private conversations, Dr. Zijlstra made it very clear that he rejects the idea, recently circulated in European Community headquarters, that the OPEC countries be allowed to receive European Currency Units to supplement their reserves. He insisted that the ECUs are "nothing but swap instruments at this stage." This BIS meeting was otherwise noteworthy for its calls for harsh austerity.

However, some opponents of Giscard have recognized that a gold option and what it implies may be a necessary pill to swallow.

A senior Swiss Bank Corporation monetary expert told *EIR* June 10 that he thinks Giscard will call for a "gold-dollar standard" requiring all central banks to hold both instruments, and will quite possibly also propose a plan for offering OPEC gold-backed bonds. The expert's own preference—like that of the London Rothschilds—is, he said, for continuing the status quo, whereby central banks continue to treat gold as an important reserve asset but neither sell it nor fix its price. Clearly, the real question is the expanded long-term international lending a new gold standard might, or might not, entail.