EIR Economics

Unfinished business at the Venice summit

Alice Roth assesses the dangers of Franco-German lip-service to U.S. policies—and procrastination on their own

West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing broke ranks with Jimmy Carter at Venice over the issue of preserving East-West detente, but the two European leaders committed a serious strategic blunder when they failed to challenge Carter leadership on the equally urgent issues of world energy and economic policy. Notably absent from the Venice agenda was a public airing of Giscard's long-awaited plan for world monetary reform. Giscard was expected to call for gold remonetization and the use of gold to both stabilize the mass of unrecycled petrodollars and to create a new source of liquidity for funding Third World development. But in no statement before, during or after the summit did the French President touch on this most important of all subjects.

According to informed European sources, Giscard has not dropped his planned initiative but merely postponed it until after the French and U.S. elections, in the vague hope that Carter's successor will be more amenable to rational discourse. But the rapid collapse of the U.S. economy, now verging on its worst depression since the 1930s, combined with the Carter administration's incendiary foreign policies, promise disaster by this fall—long before Giscard's existing timetable permits him to take any action. Worse still, Giscard and Schmidt signed a summit communiqué replete with concessions to the Malthusian doctrine which is the single most important cause of America's industrial decay.

The most outstanding feature of the communiqué was its stated commitment to "break the link" between economic growth and energy consumption by 1990:

"Our comprehensive energy strategy is designed to meet the requirements of the coming decade. We are convinced that it can reduce the demand for energy, particularly oil, without hampering economic growth. By carrying out this strategy we expect that, over the coming decade, the ratio between increases in collective energy consumption and economic growth of our countries will be reduced to about 0.6, that the share of oil in our total energy demand will be reduced from 53 percent now to about 40 percent by 1990 and that our collective consumption of oil in 1990 will be significantly below present levels so as to permit a balance between supply and demand at tolerable prices."

In a groundbreaking series of studies published by *EIR* earlier this year, a team of researchers employing the tools of the LaRouche-Riemann Economic Analysis showed that—barring extensive application of new industrial techniques—the effort to "decouple" energy consumption from growth was a bankrupt and highly dangerous proposition, responsible for a sharp deceleration in U.S. productivity growth during the late 1970s and an outright collapse in 1980.

Ironically, the domestic economic policies of both France and West Germany show that these two governments are far from unaware of the actual relationship which exists between energy consumption, technology, and growth. France is committed to an impressive program of nuclear energy development. Indeed, Giscard prevailed on Carter to include a pronuclear section

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Giscard and Schmidt at the EEC Venice summit June 12. Photo: Sygma

in the final communiqué, only to be slapped in the face when Carter permitted his delegates to block with Kennedy forces in attaching an antinuclear plank to the Democratic Party platform. In the final analysis, the failure of Giscard and Schmidt to challenge Carter's Malthusianism reflects not so much the inadequacy of their own understanding of economics as a reluctance to intervene in "internal" U.S. political affairs, even at a time when the collapse of the world's largest industrial economy threatens to disrupt world trade and drive Europe's Third World trading partners to the edge.

The second most objectionable feature of the Venice communiqué was its statement on relations with the developing countries, including a favorable mention of the Brandt Commission report and a call for increased funding of the International Monetary Fund and World Bank, whose harsh "conditionalities" and sponsorship of low-technology "rural development" projects are a major contributor to Third World backwardness.

"We welcome the report of the Brandt Commission," the seven Western leaders stated in the communiqué. "We shall carefully consider its recommendations." The Brandt report calls for a new supranational agency, the "World Development Fund," which would not direct world liquidity into industrialization but labor-intensive raw materials and energy extraction.

Although the communiqué stops short of endorsing the Brandt Commission, it directs the World Bank to consider "the possibility of establishing a new affiliate or facility" which would finance the development of "conventional and renewable (presumably non-nuclear) energy sources" in the non-oil producing Third World. The only notable concession to Third World demands for genuine development was the communiqué's suggestion that the IMF reduce interest charges on credits to low-income developing countries, but it said this should be done within the framework of existing IMF "guidelines or conditionality."

A quiet restoration of gold

Fortunately, the history of Western economic summits shows that their formal declarations are more often ignored by Western European governments than implemented. Indeed, within two days of the summit's conclusion, the price of gold shot up $30 amidst widespread speculation concerning new European moves to remonetize the metal. Gold market sources say that "big money from old European families" and wealthy Arab investors launched the new gold-buying spree, in part to register their disapproval of the Carter-Reagan "choice" in the U.S. presidential elections.

The new gold boom coincided with the release of a report by the London-based mining giant, Consolidated Goldfields, predicting a 40 percent decline in new supplies available to the world bullion market during 1980. The gold shortfall is caused by a reduction in Soviet sales, the termination of U.S. Treasury and IMF auctions, and a South African decision to withhold more supplies from the market. This is laying the foundations for a new rally in the gold market, which

should surpass the previous record of $850 and continue on to $1,000, the report concludes.

What was most interesting about the Consolidated Goldfields report, however, was not its review of the supply shortage (which market analysts were already well aware of), but its admission that "It is now clear that an increasing role for gold is being developed by governments and some international financial organizations which are controlled by governments."

This assessment was shared by the London *Financial Times*, whose June 24 editorial stated: "Perhaps the most interesting function of gold in the period immediately ahead will be its revived role as a major component in international reserves. When there are repeated warnings of the difficulties of financing payments deficits, and a new pattern of deficits is emerging, it seems unlikely that the two superpowers will remain the only countries which are willing to mobilize gold held officially." The *Times* comment was an obvious reference to the Giscard monetary plan.

One version of the plan which is currently the talk of European financial circles is that the European Monetary Fund would issue gold-backed, ECU-denominated bonds to OPEC to soak up excess petrodollars and relend them to cash-short developing countries, without imposing rigid IMF-style conditionalities. "All the European governments, not just the French, agree that we've got to extend gold guarantees to OPEC," commented a top Swiss banker in New York. "The first step is for all the central banks to recognize that gold is worth $600 and not $35. Every time the price of oil goes up, we have two choices: either we intervene militarily in the Middle East or we offer the Arabs something better than the dollar: gold. Gold-backed bonds would be one way to do this and it would create new liquidity to finance LDC imports. I'm not saying that this will happen this year but we're moving in that direction."

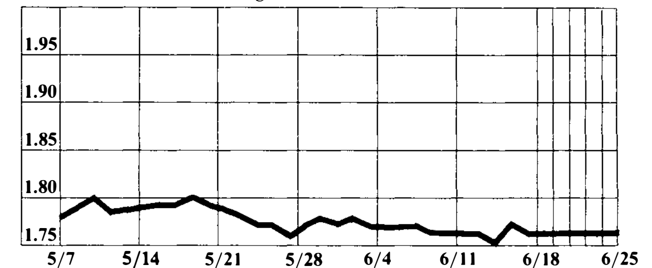
Meanwhile, European governments, with France and West Germany in the lead, are quietly negotiating with moderate Arab OPEC members to ensure that more petrodollars end up in continental Europe rather than the traditional New York and London outlets. According to a confidential memo on OPEC portfolio strategy prepared by a prominent British journalist, OPEC could deploy as much as 25 percent of its 1980 current account surplus, totalling $120 billion, into direct government-to-government loans similar to the $3 billion Saudi-West German deal announced earlier this year.

If the majority of these funds end up in the EMS governments' treasuries, Western Europe will have gained the financial clout to institute a new monetary system whether the U.S. government agrees or not. And if the EMF, rather than the IMF, is to win control over the petrodollars, gold will be a crucial bargaining chip.

Foreign Exchange

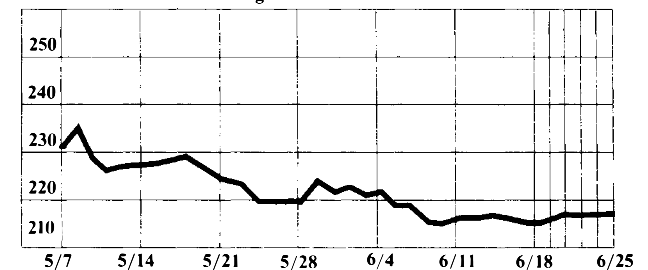
The dollar in deutschemarks

New York late afternoon fixing



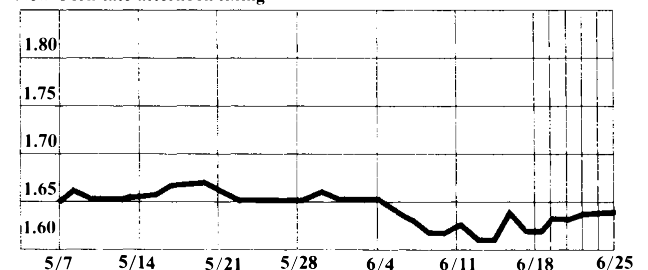
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing