

Gold by Montresor

Stabilizing prices through the BIS?

An Italian monetary expert proposes a gold remonetization plan that implies a crash first.

Former Italian central bank official Rinaldo Ossola is circulating a draft proposal for gold remonetization, centering on the role of the Basel-based Bank for International Settlements. Dr. Ossola, now chairman of the Banco di Napoli, issued this plan in a paper presented to a private meeting of the International Monetary Advisory Board of the Securities Group in New York on March 3. (See "Springing the Monetary Trap on Reagan," *EIR*, March 17.)

As I reported last week, there is fear in the gold-trading community of a classic bear maneuver: a crash below \$400 an ounce under extreme monetary duress, enabling a handful of large market participants to accumulate enough new gold to emerge from the crisis to dominate a future gold-based monetary system. Dr. Ossola's paper substantiates that fear.

He makes two separate proposals. The first is that the IMF, which wants central banks to accept its dubious paper, the Special Drawing Rights (SDR), use a gold incentive to promote the SDR. The IMF currently distributes SDRs to its member central banks free, and central banks ignore the paper as a means of settlement. Ossola would deny new SDR issues to central banks who refuse to buy additional SDRs with gold or dollars. "The incentive is so attractive that it is unlikely that any central bank would refuse," Ossola told me in a recent interview. However, since

the present value of the SDR is now de facto nothing, doubling the amounts given to central banks will not improve its acceptability.

Of greater interest is the Italian's plan to stabilize gold prices through the Bank for International Settlements. He writes:

"The BIS, acting as an agent for a number of central banks, declares itself ready to buy and sell gold against dollars at margins respectively below and above a central price corresponding to the average of the market prices in, say, the three previous fixings;

"The average of three fixings should be progressively enlarged to some 30 fixings or more in the course of the following weeks;

"Gold purchased and sold should be allocated to or supplied by the central banks participating in the stabilization program in proportion to their gold reserves."

The standard argument against any such attempt to stabilize the gold price is, of course, that there is too little gold to back the \$1.3 trillion of foreign liabilities now circulating in the form of the Eurocurrency market (of which \$1 trillion are U.S. dollar liabilities). Unless the U.S. undertook an export program which increased its foreign sales in the order of \$100 to \$150 billion, its paper liabilities would overpower its gold stock under conditions of remonetization. The only other way to return to gold backing for the dollar would be a form of "Chapter 11" for the Euro-

dollar market; i.e., a suspension of a large volume of dollar liabilities through a crash of one form or another. This, apparently, is what Dr. Ossola envisions.

What the BIS represents in world monetary affairs is a power much older and more evil than the International Monetary Fund. Created in the Palazzo di San Giorgio, the former home of the Genoese central bank that has ruled world finance for 300 years, it is the undying link to the great Italian, Dutch, Swiss, and British financial powers of the past—whom Dr. Ossola represents. These have always viewed the International Monetary Fund as an intrusion, too subject to the whims of sovereign nation-states who ultimately vote on its decisions.

By contrast, the BIS is a committee of central banks, most of them "independent" from the national governments they serve. The BIS officially admits that 20 percent of its stock is held by (mostly Swiss) private banks, although Dr. Franz Pick believes the amount is actually larger. Were it to take the leading role in a new monetary system, the old financial powers that once stood above nation-states and dictated terms, the way the Cassa di San Giorgio dictated terms to the Spanish Empire of Phillip II, would have reclaimed what they consider to be their patrimony.

France and Germany are now proposing a restabilized international monetary system. They use gold, through the European Monetary System, as a fund for stabilization of currencies. But Ossola's plan implies a 19th-century British-type gold standard, of a sort that caused successive depressions in the American economy.