

As it stands, Lomé has two institutional legs — STABEX, an income stabilization fund to guarantee a certain level of national income to Third World country members should their export earnings tumble, and a complementary Industrial Development Fund to foster technology transfer and modernization in the Third World. To date, practically speaking, STABEX has been the crux of the operation, and it is the STABEX feature specifically which Chancellor Schmidt has proposed to globalize. It is essential to note that STABEX is an income stabilization program — as opposed to the dubious “Common Fund” proposal to subject world commodity prices to speculative “stabilization” manipulation — and that furthermore, in sharp contrast to the IMF’s Compensatory Financing Facility, it attaches no conditionality to income transfers.

At present, STABEX remains a mere international welfare type of holding action in respect to actual Third World development needs. In the future? Whatever Schmidt has precisely in mind, British colonial bureaucracy holdovers in the IMF and World Bank have been literally apoplectic over the Schmidt-Manley Jamaica conference.

Frantic officials at the IMF and World Bank recently squawked to reporters that “Schmidt is trying to take over the world!”

—Susan Cohen

## Europe begins gold remonetization

The central banks of the eight European Monetary System (EMS) countries have worked out the specifics of valuing the gold pool composed of an initial 20 percent of each member’s bullion reserves at the market price — and continually expanding that pool. According to sources at the West German Bundesbank Jan. 25, the decision was not to value the pooled gold in the EMS’s European Monetary Fund (EMF) at either 75 percent of the market prices, as the London *Financial Times* had reported, or at a six-month average of the market price, but at a three-month average — in effect, 100 percent — of the market price. That market price is now well established with a \$200-an-ounce-range floor.

As a member, say Italy, draws on the EMF, it receives a transfer of gold and dollars, denominated in European Currency Units; then the surplus members, like West Germany, replenish the fund. Consequently there will be a steady shift of central banks’ gold (and dollar) reserves to the EMS.

On the books, the gold remaining with the central banks will be

## EMS’s Third World approach

agriculture, the exploitation of natural resources, the creation of industries responding to the real needs of the country. From all these standpoints, Iraq is in a good position. . . . France shares the hope that Iraq will fully succeed in its development, because today, more than ever, we have the conviction that a prosperous and powerful Iraq is indispensable for the stability of the Middle East.

“This is why, in our cooperation with you, we have never wanted to exclude any sector of activity. This is why we are ready to take, with respect for the orientations and priorities set by the Iraqi government, an increased role in your development enterprise, as is already demonstrated by our position as the number one buyer of Iraqi oil, a role which will be affirmed even more in the next years. . . .

“I am in particular convinced that close cooperation between Iraq and France is one of the foundations of any future enterprise between the Arab world and Europe. Your country and mine can bring, each in its own way, a major contribution to the stability of this vast region of the world which stretches from the Atlantic Ocean to the Indian Ocean, passing through the Mediterranean, outside of all foreign interference and bloc politics. . . .

“National independence, economic development, cooperation and international solidarity, these are the fundamental elements of a conception that we share and which must lead us, Iraqis and French, Arabs and Europeans, to agree and act in concert.”

### France’s Mideastrole

The French see economic development as interrelated to prospects for peace and stability in the Mideast. The following day Giscard stated after his meeting with Maarouf that “peace in the Middle East could not be a lasting one without the real unity of the Arab world. We expect a lot from the role Iraq has to play in the equilibrium of the Middle East and the circumstances of the moment add to the price we attach to the existence of a strong and prosperous Iraq.”

A joint communiqué was issued in which Maarouf expressed Iraq’s positive appraisal of France’s role in the Middle East, Lebanon and the Horn of Africa and in the development of international detente. Both sides urged that peace be concluded in the Mideast on the basis of Israel’s withdrawal from occupied territory and the recognition of the rights of the Palestinian people. Finally, a pledge was made for France to participate to the greatest extent possible in the realization of Iraq’s five-year economic plan.

Specific deals under consideration include: the construction of one or more nuclear power stations, a dam in the Messoul region, a refinery and two gas liquefaction plants. Prime Minister Barre has accepted an invitation to visit Iraq at a still undetermined date, in addition to his planned trip to Saudi Arabia this April.

valued according to each nation's system: the French, for example, use a six-month market price average while the Bundesbank just upvalued its gold — worth \$13 billion at the market price — by only 20 percent to under \$7 billion. However, this two-tier valuation system is a cannily dynamic one, because, as balances are settled every three months in the EMF, the "surplus" countries will get increments of European Currency Units (ECUs), whose gold component is valued at the market price. These assets, according to the Bundesbank sources, will be put into a special reserve fund, meshing interestingly with the recent proposal by the Krupp firm for the Bundesbank to institute a \$1 billion fund for long-term dollar-denominated export lending — lending which in the EMF environment would be either de facto or de jure gold-backed.

The two-tier arrangement also provides a direct answer to those who have worried that remonetization of gold reserves will create excess world liquidity. The gold is not activated at the market price until it is actually involved in EMF credit transfers. Most to the point, of course, is the basic EMS idea that, while balance-of-payments and intervention-expense problems are smoothed out through shorter-term lending, the generation of productive credit, long-term credit, as the West German experience has shown, is deeply counter-inflationary.

Thus, as one of the EMF's intellectual inspirers, U.S. Labor Party Chairman Lyndon H. LaRouche, identified the transition in his August 1978 "Facts Behind the New Monetary System," the EMF's initial \$20-odd billion in gold will not be a defensive stockpile against dollar depreciation, but a means of promoting the "hard-commodity trade and investment" among the advanced-sector, OPEC and less-developed countries that will eventually bring the dollar to the three-deutschemark level.

Gauging last August that by the time the EMS geared up gold would reach the \$230 level, LaRouche outlined coordination through the EMF, the Arab Monetary Fund — whose members have been heavy gold purchasers recently — and the Tokyo capital market to issue gold-backed bonds. These instruments proceed to absorb currently idle or unproductive dollars, and channel them at low interest rates to generate "rising volumes of global capital goods exports" and other nuclear energy and related exports. The idea had also been signaled by West Germany's leading business daily, *Handelsblatt*, last summer, when the EMS took official shape, and has been circulated in the past few months by Rep. Jack Kemp and other U.S. traditionalists who, unlike mere "gold bugs," are concerned about capital formation and export promotion.

Kemp said on the Jan. 21 William Buckley television program that if the U.S. had had something like the EMS ready to go when the Bretton Woods system collapsed in 1971, we would not have had to go through the 1974 recession; the U.S. should now be debating this EMS approach to economic growth — especially since, Kemp added, he expects the Europeans to start issuing gold-backed state bonds which will not only be secured from inflation but will give a huge kick to economic growth. The further point can be made that this level of deliberately launched growth is precisely the key to raising productivity and hence reaching a real anti-inflation success in the U.S.

## Revaluation moves

While pegging their new, high valuation of the EMF's gold reserves, several EMS members have upvalued the totality of their own central bank reserves. At the end of 1978, France did so by 10 percent, and West Germany by 20 percent. The Banque de France reapplied its own moving average of the market price formula, while the Bundesbank was nominally adjusting for the decrease in its dollar reserves' value vis-à-vis European currencies, and including some "hidden reserves." At the same time, Austria, which is expected to join the EMS currency alignment, upvalued its gold, too, newly adopting a five-month market-price average that resulted in a 63 percent hike in those reserves' value.

As of Jan. 24, related but inconclusive developments surfaced in Switzerland and South Africa. The Swiss dropped two of their foreign-exchange controls, notably the ban on foreign purchase of Swiss franc-denominated bonds. The central bank met the resulting run into the Swiss franc purchases by buying some 300 billion dollars to defend the franc-dollar parity, presumably signaling its intent to uphold the Nov. 1 dollar defense agreement in tandem with the U.S., Japan, and West Germany. Ending the bond restriction is also significant because, if Switzerland follows through on earlier government expressions of interest in joining the EMS, such controls would at least in part have to be abandoned. In their usual oblique, conservative fashion, then, the Swiss may be moving toward some sort of EMS membership soon.

The South African government Jan. 24 announced measures to encourage foreign direct investment in South Africa, which has been under pressure for the past couple of years, including liberalized capital and profit repatriation rules. The South African rand will be de-pegged from the dollar and enter a "managed float," said Finance Minister Owen Horwood. A "financial rand" whose discount will probably be narrowed from the 43-41 percent attached to the current "securities rand" is to be introduced. What the New York financial media did not report is Horwood's comment that South Africa is aware of the new European "zone of financial stability" and is considering linking the rand to it.

Meanwhile, one of the leading U.S. gold newsletters recently asserted that Japan's new Prime Minister, Masayoshi Ohira, is aligning with the widespread Japanese pro-gold sentiment expressed in mounting purchases by individuals and trading companies. This, however, the Blanchard report played as leading to a gold-backed yen designed to counterweigh a dollar collapse — one angle of the August 1978 secret Bank of England scenario for currency-bloc warfare against the U.S. It is indeed to be expected that the Rothschild-deBeers gold marketeers and their international suboperatives are angling toward using gold in regional and transregional counterplots to positive Euro-American cooperation, as the veteran Whitehall-Johannesburg geopolitician Jan Smuts proposed during World War II and the Siena-Monte dei Paschi group, among others, has played with ever since.

But not only is it possible for an institution of the EMF's proportions to sit out the speculators and squash them; the political determination that generated the EMS is quite capable of appealing to world self-interest, including that of the number-two key gold producer, the USSR, to short-circuit antidollar propositions.

—Susan Johnson