Autumn showdown over new gold-based credit system

GOLD

What *EIR* has been reporting since the gold price's ascent is out in the open. The International Monetary Fund's annual conference, which convenes on Sept. 29 in Belgrade, Yugoslavia, could be the scene of a challenge from a Franco-German-led Western Europe to the Anglo-American powers. The issue which is bringing transatlantic tensions to a head is the Europeans' success in pulling gold to their target level of $340 an ounce—amidst mounting signs that European governments intend to transform the European Monetary System (EMS) into a full-fledged gold-based monetary and credit system in direct competitition with the IMF

The gold issue was underscored by an article in the Sept. 12 issue of the London *Financial Times*, entitled "Rise in Gold Price Worries Bankers" (see below). The *FT* warns that the gold price rise has placed billions of dollars in additional liquidity in the hands of EMS member countries. The effect of this, the *FT* says, is to permit countries with financial problems to avoid having to undergo austerity programs so as to qualify for financing from the IMF. The *FT* hints that some central banks, most notably the Bank of England and U.S. Federal Reserve, requested that action be taken to dampen the gold rise at this week's Bank for International Settlements meeting in Basel and were met with stony silence from their European colleagues.

Another acknowledgement that gold market developments reflect a European policy push was dropped by the Sept. 9 London *Sunday Observer*: "Could it be...that what the golden action is signaling is something more significant than just currency hedging, notably by money-laden Arabs? Some gold watchers in the City think there is something in the wind and that gold is heading for a return to a support role for the world's creaking monetary system."

The liquidity question raised by the *Financial Times* is at the heart of the dispute between Franco-German and Anglo-American forces. It is not simply that those countries which hold large gold reserves have incurred automatic increases in their financial clout. The European Monetary Fund, which French and West German government leaders hope to institute under the "second phase of the EMS," could mobilize even greater funds if it used its augmented gold holdings as backing for special issues of low-interest, long-term bonds to be made available to Arab central banks and other interested international investors. The funds raised could then be reinvested to finance expanding European capital goods and exports to the developing sector.

What frightens Anglo-American policymakers most is the possibility that the EMS countries may join forces with the Nonaligned nations, whose Havana conference concluded last week with a rousing denunciation of IMF "conditionality." Although West German and French banks have recently been aggressive lenders of Eurocurrency funds to Third World countries, they have up till now only maneuvered within the constraints imposed by the IMF system, accepting the imposed disintegration of the economies of Turkey, Peru, and Zaire as a fait accompli. This state of affairs could change if, as some well-informed financial observers believe, the European Monetary Fund emerges as a full-blown *rival institution* to the IMF.

The mere possibility of such a development has in the last week evoked howls of rage from the Anglo-American camp. In his parting press conference on Sept. 10, Dean Hinton, the outgoing U.S. ambassador to the European Economic Community, insisted that "the European Monetary System is a major failure." "It's really only a Bundesbank-deutschmark zone. There is no impetus to create a European Monetary Fund; there are no common institutions."

In a similar vein, the *Frankfurter Allgemeine Zeitung's* London columnist wrote on Sept. 11 that the EMS has survived only because of the stability of the U.S. dollar and concluded: "There is no expansion of the EMS; the time is not ripe for a new international monetary system."

'Moribund' IMF

Despite these outbursts, a top French banker reached for comment stressed that both French President Giscard d'Estaing and West German Chancellor Schmidt are committed to further progress on the EMS. A European alliance with the Nonaligned group, this banker thought, might "solve the problem of the extraordinary authoritarianism of that moribund institution, the IMF." He suggested that as a long-term solution the European Monetary Fund could act as "a fund for OPEC, and then the Third World," but that, in the short-run, private European commercial banks might play the same recycling function by taking ECU-indexed dollar deposits from Saudi Arabia and other major petrodollars holders.

High-level diplomatic sources in Europe report that, despite British sabotage which has delayed the convening of the "Euro-Arab dialogue" summit between Arab nations and the European Economic Community, Saudi Arabia and other important oil producers are coordinating very closely with Paris and Bonn. The French daily *Le Matin* has revealed that Giscard, who initiated the summit, envisions the formation of a "Euro-Arab zone of economic cooperation and prosperity" based on the exchange of European technology for oil.

In a counter move to the EMS developments, Johannes Witteveen, the form IMF managing director and current advisor to the Amsterdam-Rotterdam Bank, has been touring world capitals in a hard-sell lobbying effort to speed implementation of "SDR substitution"—the replacement of the U.S. dollar as the world's primary reserve currency with the IMF's IOU, the Special Drawing Right. In a recent Tokyo speech, Witteveen also called for a significant reduction in the overall size of the Eurocurrency market, a curtailment of private bank lending to these countries, and the channeling of all future loans to the developing sector through the IMF. Witteveen is determined to shut down even the present limited recycling of Euromarket funds to the developing sector which has been managed largely European and Japanese banks, thereby triggering the "controlled" world depression projected in the New York CFR's "Project 1980's" papers.

Rothschilds take a bath

Meanwhile, Dresdner Bank's coup in the gold market, which we reported last week, has resulted in substantial losses to major British and Swiss bullion dealers who had sold the metal short. Following the Aug. 21 U.S. Treasury auction, where Dresdner came away with 96 percent of the gold on offer, the bank apparently established a significant "corner" on world gold supplies. British and Swiss speculators who, for political reasons, had banked on a sharp gold price reaction were forced to scramble to cover their positions, resulting in the spectacular price run-up. Britain's gold dealers took such a drubbing that the Italian daily *La Stampa* on Sept. 12 attempted to combat "crazy hypotheses circulated in recent days in various newspapers that Rothschild's and Johnson Matthey had suffered heavy losses on the gold market." Similarly, *Handelsblatt* reported that Swiss Credit Bank had recently incurred new losses, in addition to its Chiasso branch setback as a result of taking a short position in gold. The week's trading pattern indicates that the gold price is stabilizing in the $300 to $350 range—that predicted by Dresdner Bank's Hans-Joachim Schreiber in July.

—***Alice Roth***

London acknowledges strategic fight on gold

The following excerpts are from an article entitled "Rise in Gold Price Worries Bankers" which appeared on the front page of the international edition of the Sept. 12 issue of the London Financial Times:

The inflationary effect on international liquidity caused by the soaring price of gold is creating concern among leading central banks. They fear that the large increase this year in the value of the external assets of gold-holding countries will weaken the resolve of governments to follow programmes aimed at lowering inflation or cutting balance of payments deficits.

However, partly because of ambivalent attitudes on the part of central banks, who are themselves large owners of gold, the monetary authorities have no plans to take action to dampen the price rise...

The rise of well in excess of $100 an ounce in the gold price since the start of the year has, in particular, increased the value of the reserves among EEC countries, which own 40 percent of the world's monetwry gold. The effect of the price rise on available liquidity in the EEC has been intensified by the reserve pooling mechanism established under the European Monetary System (EMS).

EMS member countries have since March deposited 20 percent of their gold and dollar reserves in exchange for European Currency Units (ECUs).

ECUs are held in member country reserves and can be drawn upon to settle central bank short-term intervention debts. In this way, countries can effectively make use of their gold reserves far more easily than by either direct sales or by using the metal as collateral for loans. ...

It is feared that the boost to liquidity resulting from the gold price rise could make member countries whose currencies come under pressure less determined to carry out economic stability programmes. ...

The latest boost to liquidity has come when international bank lending conditions are in favour of borrowers. As a result, pressures for most countries with budget deficits to turn to conditional financing from the IMF or the EEc are practically nonexistent.