Gold by Alice Roth

New step towards remonetization

The French premier didn't propose to peg currencies to gold, but what he did propose is about to happen.

Authoritative European central bank sources report that gold will soon be traded among central banks as a major reserve asset in current use. This follows the lines suggested by French Prime Minister Raymond Barre in a Feb. 8 speech before the Foreign Policy Association in New York City. Barre indicated that gold would be treated as a major reserve asset, and valued according to market price, although he did not propose to value currencies in terms of gold.

According to the central bankers: The actual gold market will become two-tier, with a market-related price prevailing among a central banks' tier. The free market will remain. The market-related price will be a form of moving average of the market price, of the sort already employed to determine the ECU valuation of European Monetary System gold, and by the French central bank in valuing its gold reserves.

The purpose of the two-tier arrangement is to prepare the way for a gold price stabilized by central banks, without prematurely committing central banks to a specified price level. French and Swiss central banking sources stated frankly, in background discussions, that this modest gold initiative was a foot-in-the-door for gold remonetization. They are extremely pessimistic concerning the apparently stable dollar, and believe that floating rates have

proved a terrible mess and must finally be corrected. In the absence of a political agreement in Western Europe to implement the second phase of the European Monetary System, which is projected to include gold-backed credit-issuing facilities, central bank gold trading is a first step in the right direction.

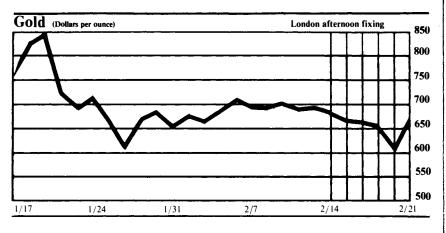
Stabilizing the gold price, European bankers believe, is desirable, but depends on political developments in the United States. For one thing, the prevailing pessimism among continental European bankers concerning the dollar includes the expectation of another upward break in the gold price. The central banks have no intention of selling gold to keep the price at the \$700 level.

The issue is, against what can the gold price be stabilized? The European central banks, through the projected European Monetary Fund, could control the dollar's parity by absorbing sufficient Eurodollars through the issuance of gold-backed securities. This would be a form of receivership for the United States Federal Reserve.

Since the West Germans are not willing to take such drastic political action in the course of 1980 such a formal receivership is for now out of the question.

The other major consideration in stabilizing the gold price is to secure the cooperation of the major providers of newly-mined gold to the market. Since this cannot be approached directly at the diplomatic level between Europe and the two major producers, South Africa and the Soviet Union, it is proceeding through manipulation of commercial channels.

The big unanswered question is the Soviet role. Prior to the Afghanistan events, the French freely advertised their intention to bring the Soviets into the European Monetary System during 1980. This is now a politically untouchable issue. However, it would be naive to assume that informal contacts are not operating, particularly since large amounts of Soviet gold are now being sold in private, off-market deals. With what strings attached?



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