Gold Based Hard Commodity Credit Option In The Works

In response to the Carter Administration's "benign neglect" policy towards the depreciating U.S. dollar, various European political factions, centering around France's President Giscard, are planning to launch a gold-based "hard commodity" alternative. The Giscard operation depends immediately on two political factors: whether, as seems apparent, Giscard can swing the West Germans and other European forces behind him, and secondly, whether significant amounts of Arab money can be brought in behind the deal.

GOLD

London's *Daily Telegraph* hinted broadly at such an operation on Wednesday, in a City column that attributed the recent price rise of gold from around $139 to the present $144-145 range to "the new Gaullist stance coming out of Paris." Leading City of London merchant banks have been informed since early June that French financial circles, including the Banque de France itself, intended a "coup" on the markets in behalf of gold, leveraging the weakness of the Eurodollar market in favor of countries with strong gold reserves.

In private discussions, senior officials of the British merchant banking community admit that their "greatest fear" is a French-Arab monetary connection with a strong gold component. These fears have been accentuated over the last several weeks when merchant banking expeditions to the Persian Gulf returned empty-handed. "We used to have the inside track on Arab money," an officer of Hambros Bank says. "Now we can't get anything." In the United States, an observer of French affairs at a leading American think-tank reports that the Saudis have opted to work with neither London nor New York financiers, but with "Franco-German" interests.

The mooted French-Arab alliance took official form this week with the creation of the Saudi-French bank, capitalized at S. Riyal 100 million, with 40 percent participation by Saudi investors. Under the sponsorship of the Saudi Arabian Monetary Agency (SAMA), the country's central monetary institution, the Saudi side of the capitalization will be funded through the largest-ever issue of shares in Saudi Arabia, indicating a broad base of support for the new bank. Although the Saudi French Bank is not the first Saudi-European consortium effort, its projected capitalization is several times larger than any other such bank.

Gold has not yet come into the picture in a massive way, although there is a consensus among observers that the Middle Eastern countries have been steadily accumulating gold reserves in a modest fashion. Until now, the Saudis and others have hesitated to commit themselves to gold, despite growing mistrust of the dollar, due to fear of ending up with an unusable hoard. Saudi willingness to accumulate gold depends immediately on the determination of advanced-sector countries to employ gold as a monetary reserve instrument. Giscard's move in this direction apparently will make the difference.

Critical to the French strategy are Giscard's ties to South Africa, which produces 60 percent of the world's gold supply, and Switzerland, the premiere trading depot for South African gold. Earlier this month, the French authorities negotiated an extraordinary agreement with South Africa in the strategic area of uranium mining, outbidding Westinghouse, Occidental Petroleum, and other interests for a 10-year, 40 million ton production contract. France secured the deal by offering the South Africans a badly-needed 103 million franc loan for mining development, interest free. An extraordinary feature of the deal is that the price of the uranium has been fixed at $27 per pound, not much more than half the $42 a pound price established by the world uranium cartel headed by Rio Tinto Zinc. In effect, the French government seems to have bagged a crucial channel of uranium supply, and undercut some of the world's toughest corporate muscle, in one major deal.

Switzerland, and the Swiss banking community, are one of the two major forces in the gold market; the other is the London Rothschild bank, through alliances with the Hong Kong and Shanghai Bank-British Bank of the Middle East-Sharpes and Pixley group, and the Monte dei Paschi Bank in Italy. The Giscard family has close ties to the Swiss banking community. Their personal fortune was managed by the Banque LeClerc, recently absorbed into the Swiss Bank Corporation. The bankruptcy of the Banque LeClerc in May has been attributed to American covert operations directed by former Chile Ambassador and present Ambassador to Switzerland Nathaniel Davis. In turn, the South Africans maintain extremely close ties with the Swiss. Several times this year, the Swiss National Bank has provided currency "swaps" for cash-short South Africa, in return for gold collateral. The French right-wing press has speculated about the possibility of a Franco-Swiss-South African gold axis often during the past two years.

But the French uranium deal with South Africa has much broader implications than South African gold. Very likely, French control over African uranium was a major factor in the agreement on nuclear energy policy between President Giscard and Chancellor Schmidt at their July 20 meeting in Paris. The two leaders agreed to joint developmnet of uranium resources in French-speaking West Africa, where French foreign minister Louis de Guiringaud is currently on tour. In addition, according to varied European press reports, France and West Germany will encourage the development of nuclear energy in a number of African countries. This issue is of critical importance to the West Germans, who have been battling with the Carter Administration for months over the issue of free development and export of nuclear technology.

The central agreement that Giscard and Schmidt reached was on the subject of monetary policy. On July 22, French prime minister Raymond Barre journeyed to Bonn to complete arrangements for "coordination of economic policy." Although details of the agreement have not been released, the apparent content is mutual defense against the dollar and the monetary policy of the Carter Administration, and is coherent with Giscard's gold option. Editorials in the French and West German press have attacked the dollar monetary system with unprecedented ferocity, perhaps hinting at what the two heads of state discussed privately.

The *French Business Daily Les Echoes* July 22 scored the Eurodollar market as a "dangerous pyramid" that threatened monetary stability and should be abolished. The right-wing daily *L'Aurore* questioned the right of the Organization for Economic Cooperation and Development, the U.S.-founded economic prescription body of 24 industrial nations, to maintain headquarters in Paris. Responding to recent OECD recommendations that the 15 OECD members who suffer from balance of payments difficulties should adopt severe austerity measures, *L'Aurore* demanded to know what right the OECD had to interfere with national policy, and proposed that its offices pack up and leave the French capital.

In West Germany the same day, the usually staid *Frankfurter Algemeine Zeitung* let loose with an editorial entitled, "Crazy Blumenthal." The American Treasury secretary, the newspaper said, is possessed of a "madness with a method." Just like 1971 and 1973, the FAZ wrote, the United States was trying to dump its trade deficit problem on the rest of the world by depreciating the dollar. "It won't work this time," the West Germany newspaper warned; excess dollar liquidity has gotten out of control. "President Carter does not have a monetary official who understands the consequences of economic policy," said the FAZ. He should dump Blumenthal, the editorial concluded, "and get someone who does."

How far the West Germans want to distance themselves from the dollar is questionable. But the special dynamics of monetary breakdown are at work, and any leading political force that chooses to break towards a "hard-commodity" option against the bankrupt Eurodollar system has some very compelling advantages. If a French-Arab gold alliance has a chance of success, all other political forces and financier groups must immediately begin to hedge their bets against such an eventuality. U.S. Labor Party Chairman Lyndon H. LaRouche Jr. described this effect in reporting the reaction of the international financial community to his proposal for a private-sector gold-based international development bank, which was translated into French and circulated among a dozen key French and Belgian banks.

The British, in particular, are on the hot seat. During the round of meetings between Giscard, Schmidt, and Italian prime minister Andreotti this week, rumors abounded — despite denials by official West German spokesman Heinz Boelling — that the three-way discussions had read Britain out of policy-making in the European community. At the bare-knuckles level of European banking competition, there are strong indications that heightened Franco-German ties are developing at direct British expense. Key is the collapse of speculative sections of the French real estate market over the last several weeks, a leading area of City of London investment into France. Real estate speculation, which reached its height before the 1974 "secondary banking" crisis in the City of London, cemented the working alliance between British merchant banks and leading French Banques d'Affaire, typified by the close relationship between S.G. Warburg's in London and Paribas in France. There are indications from the strident denunciations in the French financial press of the real-estate chicanery of the leading Banques d'Affaire, e.g. in *Les Echoes* of July 22, that the emerging scandal has a decidedly anti-British content.

After all, the British banks have access to their own "hard-commodity option," centering around the leverage of N.M. Rothschild and other London gold pool banks in the international gold market. The stronger Giscard pushes in that direction, the greater the impulse for the City of London to take its losses and get in on the game.

Financial observers are watching with great interest the activities of M. Bernard Clappier, the Governor of the Banque de France, in Moscow this week.

— David Goldman