Edmond Safra's secret pessimism

The implications for the price of gold after the merger of American Exp' ess and Safra's financial empire.

Close friends of the Lebanese financier Mr. Edmond Safra tell me that the aspect of his recent negotiations with American Express that interested them the most was the fact that Mr. Safra has chosen to keep the Republic National Bank of New York in his portfolio.

Although a considerable portion of Safra's capabilities in the world gold market accrue to American Express through the sale of the Trade Development Bank, nonetheless Republic National Bank remains the largest entity in the Safra group for the trading of physical gold; along with Mocatta Metals of New York and London, it is the predominant influence in the American physical gold market.

Like most latter-day financiers from the pool of families that emerged from the vagaries of banking in the Ottoman Empire—another name that comes to mind is the Recanati of Israel Discount Bank and Bank Leumi—the Safras are motivated by "the ideal of usury," as one close friend expresses the problem.

Mr. Safra's banking practice comes as close to risk-free undertakings as possible; he tolerates virtually no medium-term exposure in his portfolio; he lends short-term and, often, at very high interest rates, concentrating on those sectors of the market where this is possible. His fortune was made lending short-term at interest rates of two and three digits in Brazil.

He also believes that gold is the means by which clever families survive the dissolution of national currencies. The well-known financial consultant Dr. Franz Pick, a friend of Safra "since we met when we were both smuggling gold and cigarettes in Marseilles," says, "Edmond believes the same thing that I do: that the world is in a disaster and one must buy gold."

Safra's mode of banking is, of course, one that might place a special reliance on gold: he has a hand in the traffic in gold jewelry and bullion that flourishes between Iran, Turkey, and Italy, via Bulgaria and Yugoslavia; at least 100 tons of the metal moved through this route after the Iranian revolution. Safra is the purveyor of safe and secret media for transferring of money par excellence, and his professional credentials may prejudice him in a certain direction.

Nonetheless, the fact that this secretive, relatively obscure individual, whose personal fortune is worth triple that of David Rockekfeller, might come into effective control of America's most powerful financial combination, adds another dimension to the story.

As the American banking system lost its old regulated definition, American Express was held up to public comment as the exemplar of things to come: an entity with virtually no financial risk, able to draw commissions from the facilitation of all forms of financial activity. The American financial future is apparently under Swiss-Lebanese ownership, and staked to a type of pessimism that would terrify most Americans.

Americans do not understand the outlook of Mr. Safra. An acquaintance who passes his time at the University of Venice commented to me recently, "Mr. Felix Rohatyn of Lazard Frères wants to solve the Third World debt problem by issuing $300 billion of bonds. That is a very liberal proposal, indeed; it reminds me of the bonds of Imperial Russia. The problem is that such things do not work."

As I have emphasized before in these pages, the same pessimism is to be found among the managers of Europe's old *fondi,* who control the largest compact share of mined gold in the world, and is to be heard from the elite publications they read, e.g. the *Bank Credit Analyst* of Montreal or the *Economic Review* of Morgan Grenfell in London. They smile cynically over the apparent inability of the United States to deal with its economic crisis, and refer, in particular, to the $15 billion *per week* in Treasury bonds coming to market. They anticipate a crisis of the American government debt not much different from the crisis of the Spanish debt at the end of the 16th century. They view the attempts of "mere governments" to patch the world debt situation together with some contempt. In various ways, they plan to take advantage of the American failure they anticipate.

This is not to say that the price of gold will necessarily rise sharply in the near future; on the contrary, a reverse in the liquidity position of the world banking system might well force a general liquidation of gold holdings at extremely low prices. Gold as an investment has the same character as J. P. Morgan's yacht; if one must ask how much it costs, Morgan reportedly said, one cannot afford it. Edmond Safra made his career by seeking not to buy low and sell high, but to make sure that he was the last player left in the game.