

## Europe plans new world credit terms

Detailed plans for a banking consortium for large-scale development lending were discussed at a private meeting of European commercial bankers in the vicinity of Belgrade during the week of the International Monetary Fund and World Bank Annual Meetings in that city.

According to well-placed European banking sources, the new consortium will take a major role in lending to developing sector countries. "We are not merely talking about export credits," said one source. "We are talking about what we call *support lending*. For example, we are currently preparing a major loan for Cambodia," the first private-sector loan, or indeed loan of any kind, to be received by the new Phnom Penh government.

In large measure, the formal inauguration of the new consortium will institutionalize developments that have been in the works for some months. The current direction of affairs was outlined to a Berlin banking symposium at the end of last month by Deutsche Bank spokesman Wilfrid Guth and Crédit Lyonnais Director Pierre Brussolet.

### Setting the policy

At that symposium Guth informed the International Monetary Fund and Bank for International Settlements, which have suggested controls on private commercial bank lending, that henceforward "cooperation" between the private sector banks and the official institutions would take place on terms set by the commercial banks.

Guth argued that since the commercial banks are doing the bulk of the "recycling" of surplus Arab funds and other international financial resources, they would make the decisions. In parallel remarks, Crédit Lyonnais's Brussolet said that the four or five top international lending countries must now coordinate their international lending policies.

A former private secretary to French President Valéry Giscard d'Estaing, Brussolet appears to be the "point man" in the new consortium. According to senior sources in the French finance ministry, European governments are going to back up these efforts in several ways.

First, French diplomacy is aimed at effecting a transfer of the bulk of oil-producing countries' deposits from London to Paris and Frankfurt. Such a transfer

has been underway over the last several weeks in any event. Dresdner Bank last month provoked a storm in European banking circles (and some protests from the West German central bank) by marketing special securities designed as reserve instruments for central banks, including the monetary authorities of Persian Gulf states.

The deposits of central banks have shifted heavily into West German banks during the past several months—in both dollar and deutschemark denominations. Since the Dresdner Bank has performed the role of first-line marketer of gold to central banks, European commercial banks are in effect backing up the deposits of their central banking customers with gold.

In short, the concentration of international financial resources with the three dozen or so banks that met in Belgrade and that may invite one or two American banks in—has the character of a preparatory move toward gold-backed credit activity.

According to European banking sources associated with the management of the new consortium, the issue is not the use of gold as specie, but the denomination of deposits and credits in gold.

Such discussion has been underway since the spring of 1977, when *Executive Intelligence Review's* contributing editor (and now a candidate for the Democratic presidential nomination) Lyndon H. LaRouche, Jr. proposed the creation of a "private international development bank." According to the LaRouche proposal, the new consortium institution would attract deposits through the special advantage of offering its customers a gold position in proportion to their deposits and loans, possibly by denominating such credit activity according to a gold price index. Widely studied at the time, the LaRouche proposal is one influence in current European thinking.

### The public-private combination

It appears likely, therefore, that the European commercial banks—under the direction of government-owned institutions such as the French nationalized banks—will take the first steps to a new international credit institution through a quasi-private initiative. The official position of the French government, expressed in a statement by French Foreign Minister François-Poncet before a press conference at the United Nations Sept. 29, is that the European Monetary System would form the core of a new international monetary system replacing the International Monetary Fund. However, François-Poncet said, the EMS is not prepared to do this immediately. Judging from last week's actions, it appears that the "private" banks—if an institution like the Credit Lyonnais can be called private—are taking the job on.

The last-named bank displayed an almost uncanny degree of market muscle last week, managing a syndi-

cated \$1 billion credit for the Electricité de France, with an unheard-of 9-year grace period (for an 11-year credit) and an equally unheard-of interest rate of 0.4 percent above the cost of funds (as measured by the London Interbank Rate, or LIBOR). That is less than the usual cost of administering such a loan, usually reckoned at about a half a percent above the cost of money. American and British bankers have complained furiously over the past year about "spreads" on international loans that fell from 1 percent for top-rated borrowers, to  $\frac{7}{8}$  percent, and then to 0.6 percent. Crédit Lyonnais's syndication for the French government-owned utility is entirely without precedent.

Banking analysts draw the conclusion that the French bank has succeeded in obtaining significant amounts of long-term international deposits, presumably from oil-producing countries, or it would never be able to handle a deal of this sort.

The same French finance ministry sources cited earlier also report that the market operation will proceed in parallel with a financial opening toward Eastern Europe. By the beginning of next year, the sources said, the Soviet Union and possibly other members of the Comecon economic group will have become associate members of the European Monetary System. In effect, the CMEA countries will link their external pricing arrangements to the EMS currency basket, the European Currency Unit, which includes a significant gold component.

#### East and south

This link is especially important for the relationship to the Third World. According to figures released this month by the Federal Reserve, the Soviet Union has reduced its short-term obligations to American banks from almost \$1.2 billion to about \$600 million in the five quarters to June 30. According to Bankers Trust economist and Eastern Europe expert Lawrence Brainard, the reduction is due to an exceptionally positive trend in the Soviet Union's relationship with developing-sector countries, who are buying Soviet manufactured goods. These include oil producers such as Iraq and Libya, who have a great deal of hard currency with which to pay for Soviet manufactures.

If the Soviets associate with the European Monetary System, it will be from a position of strength, not weakness. The primary focus will be joint credits to the developing sector, rather than Western European credits to the Soviet bloc. When West German Chancellor Helmut Schmidt and Soviet President Brezhnev met in Moscow last June, among the agreements they reached was a plan for joint export of nuclear-generating facilities to the developing sector. It is now clear that the Soviets have proved themselves in the developing-sector export market.

—David Goldman

## 'Gold is unstoppable': Remonetization ahead?

European authorities are planning to implement gold remonetization, possibly as early as mid-October, according to well-placed European banking sources. This would be accomplished by forming a "pool" among the European central banks to stabilize the gold price. One purpose would be to counter the chaos in the foreign exchange markets, which the Carter administration is incapable of doing on its own. But such stabilization of the gold price would also permit the immediate use of gold in monetary arrangements for credit purposes.

*Les Echos*, the influential Paris business newspaper, called on Oct. 4 for a new "Bretton Woods" conference to form a gold pool and officially remonetize gold—underlining the "productive" credit issuance this would permit, along with the suggestion that stable, expanded liquidity would make debt forgiveness for the Third World problem-free (see box).

At the Belgrade IMF conference, South African finance minister Owen Horwood was unusually aggressive on the subject of gold. Horwood made a public statement Oct. 3 that "gold is alive and well and clearly performing important monetary functions. Efforts to demonetize it have collapsed." According to the *International Herald Tribune*, he "urged the IMF to reconsider its past actions and restore gold as an official asset, and praised the role of gold in the new European Monetary System as 'a significant step in the right direction.'"

The leader of the French delegation at Belgrade, René Monory, commented the same day that "the French have no interest in selling gold to depress the price." He added that the Swiss—some of whose banks got badly hurt shorting bullion last month—felt differently, but would not attempt sales without French agreement.

Now gold's de facto remonetization at the behest of European central banks, the Dresdner Bank, and allied Arab interests has already created unparalleled confusion in the ranks of the Anglo-American-centered international financial mafia which until recently has had the final word on global monetary policy.

The Anglo-American group's schizophrenic response is epitomized by a recent interview with a top source at Banque Crèdit Suisse, one of the Big Three Swiss banks,