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 administrating 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 ⅞ 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 fogiveness 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 publc 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, Renè 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, which is known for its close ties to London's Lazard Frères.

According to this source, Crèdit Suisse would look favorably on any effort by the major central banks to "bring order" to world markets through coordinated gold sales, but absolutely draws the line when it comes to setting a specific price. "A gold pool, that would be going too far, really too far!" Crèdit Suisse emphasized.

Nevertheless, a gold pool—that is, a managed market in which central banks defend an official gold price—appears to be exactly what European governments are heading toward. Influential French and West German business circles hope to use gold-backed bonds, issued either by the European Monetary Fund or by a private banking consortium, to mop up short-term Eurodollars and redirect them into productive Third World investments. A relatively fixed gold price is required for such a plan to work.

The recent panicky run out of dollars into gold and other commodities was deliberately staged by some Anglo-American factions in order to destabilize this European effort. The gold price crossed $400 an ounce for the first time on Sept. 27, two days before the opening of the International Monetary Fund conference; by Oct. 2 it had reached an incredible $446 an ounce. When rumors began to surface that a major new dollar support package was in the works, however, the markets calmed, and gold fell back to $384 by the London afternoon fixing on Oct. 4.

## A French manifesto

*The following is from the lead editorial in the French financial daily* Les Echos *on Oct. 4.*

Jacques Rueff was right all along. Now it is time to enforce his policy, because gold is unstoppable. Central banks must revalue their gold and form a gold pool including the U.S. as well. This would solve the following problems immediately: (1) the U.S. balance of payments deficit; (2) through gold, all Third World debt can be annulled. For this we need a new Bretton Woods meeting with French influence.

### Counteroptions

According to a source close to Bank of England advisor Sir George Bolton, the latest gold rush was spearheaded in part by a Commonwealth-oriented British faction, which includes Bolton and has close ties to South Africa. This group believes Britain's strategic position in world raw materials markets should allow it to come out on top in a situation where all national currencies are discredited and a 19th century-style "real bills" system emerges, based on commodity holdings. This faction is therefore making a run out of paper into commodities, including silver, copper, and other base metaly.

However, other British factions, typified by Lazard and Crèdit Suisse, are terrified that the market chaos could provoke the Franco-German group to move more agggressively toward implementing a development-oriented world monetary reorganization. The Lazard group will, therefore, welcome a dollar support package but fears anything which smacks of gold remonetization.

Reflecting this faction's concerns, all kinds of rearguard proposals involving gold have surfaced in the past week, including that of Charles Stahl, publisher of the widely-circulated *Green's Commodity Market Comments*. Stahl has proposed that a gold pool be created under the managemenı of the International Monetary Fund, but with the following stipulations: The IMF will sell gold to anyone at a price of about $400 to $420 an ounce and buy at $200 to $220.

In other words, Stahl's plan provides such a large trading range that it will be fully coherent with U.S. Treasury efforts to demonetize the metal. It was Stahl who denounced Dresdner bank Chairman Jürgen Ponto in his newsletter as "the führer of the international gold standard" shortly before Ponto's assassination in 1977.

### Gold-backed SDRs

Another effort to contain Europe's drive toward gold came from Rimmer de Vries, Morgan Guaranty's chief economist, who suggested that the IMF use its $30 billion in gold holdings as backing for the SDR substitution account—a ludicrous proposal given that the Special Drawing Right was created in the first place to *replace* gold. De Vries's plan was covered by *Business Week* in an Oct. 8 cover story entitled "The Dutch Money Masters: How a Worldwide Clique Influences Foreign Exchange Rates."

The article purports to demonstrate that an "international Dutch conspiracy" is behind world monetary developments, although the "pragmatic, realistic" Dutch-born officials cited are better described as suboperatives of a larger Anglo-Belgian directorate.

The article, by monetarist *Business Week* editor Bill Wollman, gives the following overview: "Already the new European Monetary System (EMS) has a 20% gold backing for its own unit of account, the ECU.

"Putting gold behind the SDR would then set up two international monetary funds, one dominated by Germany and its strong mark to which the gold-backed ECU is linked, and the other dominated by the U.S. and its weak dollar that is slowly being absorbed into gold-backed SDRs." The *Business Week* article concedes the improbability that the gold-backed SDR proposal will get anywhere, belatedly acknowledging that the EMS itself can "sop up" and recycle dollars.

*—Alice Roth*