FOREIGN EXCHANGE

French franc under threat

The latest issue of the prominent French economic bulletin *Lettre de l'Expansion* warns that the runup in oil prices, bullion, and the dollar will be used against the French franc. The author in fact hints that these price measures are deliberately aimed against the Giscard government and the alliance between France and West Germany which constitutes the core of the new European Monetary System (EMS)

Confirmation of the political character of the franc's potential destabilization appeared May 28 on French radio, where a member of one of France's ultraright groups, the Club de l'Horloge, declared that "either Giscard devalues the franc or he will be forced to pull out of the EMS in the next few weeks."

Thus far, no dramatic pressure has actually hit the franc, beyond the general weakening of European currencies entailed by the artificial situation *Lettre de l'Expansion* describes. The franc lost almost 2 percent in value against the dollar over the past seven weeks, compared with 1 percent vis-à-vis the deutschemark. Stressing the franc's "fragility," the May 29 issue of the business daily *Les Echos* claimed the franc has dropped 1 percent in ECU terms since the March 13 activation of the EMS currency grid of fixed parities with narrow fluctuation bands. The actual drop is 0.6 percent, and the franc has had no trouble staying within its 2.25 percent allowed band of downward movement.

Despite the bidding of gold to $300 an ounce in Paris on May 29, the franc held steady against the dollar and mark. A Frankfurt banker cited the following fundamentals: France seems to have to pay too much for oil, but they have a capital formation policy and confidence in the government.

This is what the EMS opponents,

GOLD

EMS forces set new target price for gold

Several months ago, U.S. Labor Party Chairman Lyndon LaRouche reported that the European Monetary System (EMS) would establish a new international dollar-gold standard and that the new official pricefor gold would be pegged at approximately $240 an ounce. It now appears that the pro-EMS forces, including most visibly West Germany's Dresdner Bank, have set a new higher target price for gold—$300—to take into account the recent oil price-related surge in world inflation.

As LaRouche has outlined in previous contributions to *Executive Intelligence Review*, gold has to play a role in any viable monetary system since, unlike paper, it represents a direct connection to the productive process. That is, the price of gold is determined, in the long run, by changes in the social cost of extracting additional supplies at prevailing mining technologies. Thus, gold acts as a disciplinary gauge against inflationary tendencies within the world economy.

It has been proposed by LaRouche, for example, that the projected European Monetary Fund (EMF) issue low-interest dollar-denominated bonds with the proviso that the purchasers may exercise the option to receive payment in gold—a built-in anti-inflation guarantee.

The point is not that the amount of credits issued should be limited by the amount of gold in the world—the typical gold bug's fantasy—but that governments should take care that credit expansion results in an equivalent expansion in global productive capabilities.

Recent indications are that the Dresdner Bank, and other pro-EMS forces in West Germany and France, the Thatcher strategists for whom the Club de l'Horloge speaks, want to disrupt. The Tory government has taken a posture better disposed toward EMS membership than the Callaghan Labour government did. However, the City of London, International Monetry Fund (IMF), and their Council on Foreign Relations affiliates in the U.S. remain as opposed as ever to the European Monetary Fund *policy*: namely, redirection of world credit toward hard-commodity, high-technology trade and investment lending to make the Third World a growth center rather than a cluster of "hot spots."

Most intensively through its diplomacy in Africa and Mexico, the Giscard government has persevered in this challenge to the IMF. And its opponents have persevered in the claim, first raised a year ago as the EMS emerged, that the French economy is too weak to keep the franc in alignment with the deutschemark, an alignment necessary for what turned out to be the victorious preliminary first step of stabilizing internal European parities.

Pressure against the franc, combined with an oil price-fueled recent annualized French inflation rate of 12 percent, are designed at minimum to induce Giscard and his cabinet to raise interest rates. This in fact occurred May 29, when the Banque de France tightened short-term rates by $\frac{1}{4}$ to $\frac{3}{8}$ percent, the third increase in May. Should the tightening continue, it will jeopardize French industry further and, needless to say, open the way for destabilization of the government. This, it should be added, is a threat ranging far beyond France. As the oil hoax speeds inflation, to the extent that authorities bow to the monetarist wisdom of crimping credit, they add to business operating costs—not to mention investment costs—and thus the productive sectors of each economy are doubly penalized.

In addition to the hike in short-term interest rates, there was a second item of bad news for the French economy: the giant Crédit Lyonnais bank has taken a participation through its investment bank, Sofinex, with the Banque Occidentale pour l'Industrie et le Commerce, which is tied to the very unwholesome Franco-British operative Sir Jimmy Goldsmith through the General Occidental Bank. Banque Occidentale's two extant branches are in the contaminated money centers of Geneva and Hong Kong.

—Susan Johnson

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are moving toward the kind of gold-backed monetary system described by LaRouche. They have also decided to up the gold price to reflect temporarily higher energy costs and provide an interface with the Arab world.

The clearest indication of the new policy was given by Dresdner Bank's managing director, Hans-Joachim Schreiber, at the May 15 opening of the bank's Hong Kong branch. Schreiber foresaw a gold-price at between \$280 and \$300 an ounce before year's-end, adding that "gold's monetary role will become more obvious with the establishment of the European Monetary Fund as part of the European Monetary System."

Ironically, in the world gold market Dresner's "predictions" are increasingly law. It is common gossip among precious metals traders that Dresdner's own massive purchases, much of them apparently on behalf of Saudi clients, have powered much of the recent gold price run-up Within two weeks of Schreiber's speech, the gold price shot up more than \$20, reaching a new record high of \$276.10 at the May 29 London morning fixing.

According to a West German banking source, Dresdner's gold deals with the Saudis are part of a larger strategy to incorporate the Middle East oil producers into the EMS. This involves an effort to ensure European access to oil supplies through a series of government-to-government deals with the oil-producing countries, bypassing the Anglo-American multinational corporations who are largely responsible for the present contrived shortage in the U.S.

Most importantly, the pro-EMS forces are seeking to pool European and Arab financial resources to fund a major expansion in the industrialized countries' exports of capital goods and technology to the Third World. The eight EMS-member countries presently hold about 403 million ounces in gold reserves. Valued at \$300 an ounce, these reserves are worth an impressive \$120.9 billion. Combine this figure with the large amounts of gold which the Saudis and other Arabs have taken off the market in recent months, largely through Dresdner's mediation, and the picture emerges of a vast new world financial power in the making.

—Alice Roth