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Europe's 'Luxembourg Option' Picks Up Steam

ARBED, the leading steel manufacturer in the country of Luxembourg, announced Jan. 26 that Otto Wolff AG, West Germany's Saarland-based steel manufacturer, had purchased a minority holding in ARBED.

The announcement marks the latest move by allied West German-French-Belgian industrial and banking interests for stepped-up collaboration in building up Luxembourg's financial markets as the dominant capital market in Western Europe — over the head of the City of London.

The largest single shareholder in ARBED is the French-Belgian industrial family of Empain-Schneider. On Jan. 23, Edouard-Jean Empain, the key spokesman for the interest, was kidnapped by terrorists in Paris, an event widely interpreted by informed European circles as a continuation of the London-organized policy promoting terrorist kidnappings and asassinations of Europe's leading prodevelopment industrialists, most prominently including the murder of West German banker Jürgen Ponto on July 31, 1977. Ponto was closely associated with the Luxemburg strategy.

The French and West German industrial and banking interests who are now concentrating their international banking activities in Luxembourg's 91 branches of international banks, are committed to European-wide plans for increases in exports and industrial output. In connection with the Otto Wolff AG purchase of ARBED shares, ARBED also announced that it will be building a new steel plant in West Germany. The decision to expand steel capacity is a direct move against the production cutback and "diversification" program being pushed in West Germany by the dominant Thyssen steel corporation, which has thrown its weight behind London programs for deindustrialization both in Western Europe and the United States.

Luxembourg Option Plays to Mixed Reviews

ARBED's move also provides support for the recent public statements in favor of the Luxembourg financial market center from European government officials and business newspapers.

On Jan. 25, Luxembourg Finance Minister Jacques Poos denounced the West German Banking Oversight Committee, the supervisory commission which monitors West German bank liquidity, for its recent attempts to crack down on banks operating in Luxembourg on the grounds that they are engaged in an uncontrolled speculative "bubble." The audacity of the Oversight Committee's accusations is highlighted by reports from West German finance officials last December that the Oversight Committee investigation of Luxembourg had been engineered by a British-controlled faction in the European Economic Community Commission.

These British forces, themselves sitting on hundreds of billions of dollars of uncontrolled Eurodollar liquidity, are hardly in a position to assume a moral posture against speculation. Rather, as West Germany's industrial weekly *Deutsche Zeitung* stated in an exposé last week, London has unleashed a wide array of banking scandals and "Mafia"-type dirty tricks against European banks to stem Luxembourg's growth.

Exemplary of such dirty tricks were the January rumors circulated on all international wire services that West Germany's Dresdner Bank had suffered major foreign exchange losses during the recent spate of speculation against the dollar. In a report on Finance Minister Poos's speech, the *Frankfurter Allgemeine Zeitung* stated Jan. 24 that the rumors against Dresdner Bank were not coincidental, but were timed to support the Oversight Committee investigations.

The *Allgemeine* added that the time has come for "open warfare" between Luxembourg's proponents and enemies.

Poos's speech was delivered on the occasion of the opening of a branch of the Rhein-Saar-Luxbank, the 91st bank to open offices in Luxembourg. Poos stated that he "didn't welcome interference" into foreign banking activities in his country, and according to the West German daily *Die Welt,* demonstratively handed a copy of his speech over to a Dresdner Bank representative.

The Issue is Gold

Luxembourg is a threat to London primarily because of the determination of European banks there to engage in major gold transactions as a means for shiftint international monetary arrangements into a gold-backed system.

On Jan. 1, the Luxembourg government implemented a new tax law which will facilitate gold purchasing by private banks. On Jan. 31 the 1976 Rambouillet accord which banned Central bank transactions in gold will expire, permitting Luxembourg bank offices to link up with what are expected to be a vast increase in international gold transactions.

Last-ditch efforts by London to sabotage international support for gold by extending the Rambouillet accord were completely unsuccessful at the January meeting of Central Bankers held in Basel, Switzerland.

The *Wall Street Journal* ran an OpEd article endorsing a proposal first issued by Swtizerland's chief monetary official, Fritz Leutwiler, for the U.S. Federal Reserve bank to issue gold in exchange for central bank "swaps" arranged to support the dollar. The *Journal* also endorsed Leutwiler's proposal to base this gold transfer on the market price of gold, which under continuing dollar instability has maintained record highs of $170 to $177 an

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ounce since January.

Were the U.S. to implement the Leutwiler plan, U.S. reserve assets would be revalued de facto four times, to $50 billion, since current valuations are based on a fictitious gold price of $42 an ounce.

This revaluation would permit the U.S. dollar to remain as an international reserve currency, and would increase its international credibility in performing this role by beginning to soak up the huge excess dollar liquidity over which London exercises dominating control.

Federal Reserve gold transactions would also facilitate implementation of the U.S. Labor Party proposal for the U.S. Export-Import Bank to establish an office in Luxembourg, to attract gold and Eurodollar deposits — on the order of $200 billion — as a high-technology credit export agency for the U.S. economy.

European bankers have recently been very active in organizing for Saudi Arabian support behind major gold purchases. Swiss authorities are saying privately that if another round of attacks is unleashed against the dollar, they will immediately issue a public call for the establishment of a gold monetary system.

Mooted British Attack On Dollar Could Backfire On Pound

From the *London Guardian* to the *New York Times*, the City of London's financial press this week began a campaign for a new round of dollar dumping. Their motivation for this sabotage emerged in the interviews with major New York City banks: without such a renewed dollar collapse—which London is trying to force even in the face of massive dollar support operations by the West German, Swiss, and U.S. central banks—the British pound may be in for a beating.

FOREIGN EXCHANGE

On Jan. 25, the *Guardian*'s financial page laid out London's strategy: the Bank of England, which has accumulated over $20 billion in dollar reserves during the dollar's decline, should dump these and get into investments—with a nickel on the dollar buying spree in the U.S. and elsewhere around the world. The implication is that the Bank need no longer hold dollar cash reserves to defend the pound despite the fact that it fell by 30 percent in 1976, and that some dollar-dumping outside the U.S. and the consequent run on the dollar, would not trigger international monetary chaos.

Today's *New York Times* also warns of a new run on the dollar later this year. British banks, reached for comment, all chorused that the dollar is headed for another fall, and that the pound will "easily be up to $2.00 in a week or two," as one trader put it. Sources also cited the tremendous weakness in the Eurobond market and the U.S. money supply. The Dow Jones reported today that since Christmas, there have been five Eurodollar bond issues totalling $345 million, while in the Euro-deutschemark sector of the market there have been 13 issues totaling $900 million (worth of deutschemarks), or triple the rate.

Similarly, the U.S. money supply has risen at a 12 percent per annum rate during the past four weeks, and at an almost 10 percent rate for the last 12 weeks, way out of line with official targets. The entire increase, in absolute terms, is due to an equivalent increase in Federal Reserve credit, i.e., direct money-pumping into the economy.

Dollars vs. Pounds

While it is true the Federal Reserve's money-pumping (still at only a fraction of what can be expected if George Miller takes over the Fed) is hurting the dollar, the central banks' resolve at European insistence to support the dollar actually makes the U.S. currency a better bet at this point than is the pound. Traders at major New York banks said today that British Chancellor of the Exchequer Denis Healey's announcement yesterday that Britain is repaying in advance $1 billion of its debts to the International Monetary Fund was an attempt to garner psychological respectability in the markets, and make it look as if the pound is "all right, (Union) Jack."

This stance is a defense against the developing tendency for U.S. analysts to view askance the London stock market and government debt bubble as British industrial production collapses and trade grinds to a halt. The Bank of England, in an official statement today, noted that while it would like to build up a "foreign portfolio" (in the terms that the *Guardian* demands) by the end of the year, some $4 to $5 billion of Britain's total of $20 billion reserves is "hot money" which could be pulled out at any time, and so the Bank must retain cash in case some defensive action becomes necessary.

But the real threat to the pound was revealed by a New York foreign exchange trader this week. Any attack by the British banks against the dollar will provoke such a defense of the dollar by European and U.S. central banks that a run on sterling may quickly develop instead, as almost happened in the beginning of this month. Minimally, British banks who bet on an upvalued pound would "lose their shirts" on the foreign exchange markets as the U.S. Federal Reserve intervened.

What follows are excerpts of a Jan. 27 interview with a sterling trader at a leading New York commercial bank:

Q: British banks say the pound's going to $2.00: What do you think?

A: Baloney. During the first week in January, right after the Fed-Bundesbank support for the dollar was announced, it wasn't the speculation against marks or yen but the British banks that tried to drive the pound up. All week they were saying, "We'll have a $2.00 pound by