From the New York Daily News, *April 6, "Rocky Will Go To Mideast" by Robert Geline. On March 29 the* News *published the first report on Rockefeller's development proposal.*

Nelson Rockefeller will fly to Saudi Arabia and Kuwait within the next few weeks to discuss with the Saudi royal family his plans to form a corporation that would use billions of Arab petrodollars to finance energy and food projects here and in lesser developed nations.

It was learned that the purpose of the trip is to move the delicate talks with the Saudis toward closing a deal to fund the new corporation, which would be based in New York City.

Rockefeller has informed the State Department of his impending trip. Sources at the department said that he had done so "as a matter of courtesy." They added that Rockefeller is pursuing his talks with the Arabs as a private citizen.

The News disclosed last week that Rockefeller has been pursuing plans for a new development corporation that could create thousands of new jobs, affect balance of payments accounts, currency valuations and the standard of living in many countries.

Apparently all that stands between Rockefeller and his key associates in the project, former CBS president Arthur Taylor, and George Woods who used to head the World Bank, is a commitment from the Saudis to provide the fledgling corporation with investment capital.

A plan for the new corporation has been on file with the New York secretary of state's office since March, 1977. Incorporated here as the SARABAM Corp., the company's certificate of incorporation gives it a broad charter to undertake practically any aspect of food and energy development, from exploration to sales or distribution.

Pound Plunge Foreseen...

No Technical Solutions For The Dollar

Despite outgoing U.S. Federal Reserve chief Arthur Burns's March 31 call for large-scale intervention in defense of the beleaguered U.S. dollar — including U.S. gold sales — international currency markets remain panicky. Burns's proposal was welcomed by Swiss National Bank head Fritz Leutwiller, and is widely regarded as a concession to European central bankers, who are standing by to purchase U.S. gold at the revalued market price if and whenever a public auction should be held.

FOREIGN EXCHANGE

Nevertheless, central bank intervention remains at best a "bridge" to tide the dollar over until a major Eximbank-financed export drive can be gotten underway.

Ironically, the British pound sterling is in much worse shape than the dollar, and if it were not for the dollar's weakness the pound could undergo an "unstoppable plunge," in the phrase of the April 4 *Daily Telegraph* of London. The British currency has declined nearly 10 cents in the last two months to the $1.86 level and, according to the *London Times,* the Bank of England has had to spend nearly $900 million in its defense in the last few weeks.

To avert a pound collapse, City of London merchant bankers and British monetary officials have orchestrated the recent round of rumor-mongering about an expansion of the European currency snake to include the French franc, Italian lira, and the pound sterling. Other central banks would then have to bear the burden of intervention to keep the bloated sterling in line with other European currencies.

Burns's Gold Initiative

In a parting interview with Washington reporters on March 31, his last day at the Fed, Arthur Burns called on the Carter Administration to mobilize a total of $70 billion in financial resources to support the dollar. Burns suggested that U.S. gold reserves — whose total market value is $50 billion — be sold on the open market in exchange for foreign currencies, that the U.S. market $10 billion worth of foreign currency-denominated bonds, and that the U.S. sell $2 billion worth of SDR (Special Drawing Right) holdings and utilize its borrowing rights at the International Monetary Fund. Underlining his differences with Blumenthal's "malign neglect" stance toward the dollar, Burns declared, "I fear that if the dollar continues to depreciate, it may bring along serious international and political troubles. In other words, the recovery of the international economy which has been sluggish may be cut short. This is not only of economic importance but it has far-reaching political consequences for the Western world."

Burns's call for a public gold auction was immediately seconded by Thomas Wolfe, a well-known gold expert who was in Gerald Ford's Treasury Department.

According to a U.S. stock broker — and subsequently confirmed by a source close to the Swiss National Bank — any public gold auction would involve a behind-the-scenes arrangement with other leading European central bankers, who would take up the bulk of the gold as payment for the foreign currency swap loans that they have been extending to the U.S. government. Thus, despite all public protestations to the contrary, gold will in effect have been "remonetized" — brought back into the international monetary system.

Sources close to Burns say that Burns himself hopes gold remonetization can be avoided, but this is nonetheless the logical result of his proposal.

For this very reason, Washington think-tank sources report, Blumenthal's Treasury Department is strongly opposed to such a public auction. On April 5, Treasury Undersecretary Anthony Solomon attempted to dismiss the rumors of an imminent gold sale: "From time to time we do sell gold, (but)...there's no special sale being planned right now."

Nevertheless, even if Burns's plan should be implemented, $50 billion in gold reserves are obviously no match for the $600 billion in dollars — American IOUs — sloshing around overseas. Unless the U.S. mops up these IOU's through a major "hard commodity" export drive, any gold sale will, at best, merely postpone the next dollar crisis or, at worst, allow the British to manipulate a 1971-style run on U.S. gold reserves.

The inadequacy of some European officials' thinking on this question was best illustrated by Swiss National Bank head Fritz Leutwiller, who on April 3 issued a statement simultaneously praising Burns's gold sale proposal and demanding cuts in U.S. domestic energy consumption, a measure which would merely speed America's deindustrialization.

Snakes in the Grass

Meanwhile, the City of London has managed to dupe some leading Continental bankers into embracing its plan for an expanded European currency "snake" to prop sterling, albeit with little hope of actually bringing this strange animal into existence. The April 5 Dow Jones ticker carried a report, date-lined Brussels, that the April 7-8 summit of EEC government heads in Copenhagen would "discuss forming a European currency bloc to counter erratic movements of the U.S. currency." Citing unidentified "high monetary and government sources" in the EEC, Dow Jones stated, "the idea of stabilizing foreign exchange rates of European currencies is being advocated by Britain, France, and West Germany...Initial exchanges at the expert level appear to indicate an EEC currency bloc could be formed along the broad outlines of, but not identical with, the current European joint float, the snake."

Last week's issue of the London *Economist*, however, inadvertantly lets slip the fact that the "European currency bloc" is in fact a British plan with a "Europeanist" cover. The *Economist* claims that French President Giscard is applying pressure to West German Chancellor Schmidt to reflate his economy, and is also ready to push for bringing both the French franc and sterling into the snake. Although Giscard's press secretary, Pierre Hunt, did hint vaguely that Giscard wanted to make Europe a "zone of monetary stability," all the evidence points to close collaboration between Giscard and Schmidt going beyond purely monetary considerations.

Unfortunately, this has not stopped the head of West Germany's Commerzbank, Robert Dhom, from advocating a "European solution" for the dollar crisis. Albert Coppe, president of the Société Générale de Banque, a Belgian bank with possible British ties, told reporters in Washington that the snake should be expanded to include the French franc, British pound, and Italian lira.

Calling Britain's Bluff

But as even the British financial press has admitted openly, even the hint of a stronger dollar could easily blow sterling out of the water. Britain's industry has been stagnating at abysmally low levels for months, its exports are falling, and the myth of financial salvation through North Sea oil has recently been popped.

In an April 4 column titled "Stopping the Nonsense," the British *Guardian*'s financial editor, Hamish McRae, warned that a dollar recovery could trigger a panicky exodus of the "hot money' which flowed heavily into London last year back into the dollar. To avoid sterling collapse, McRae lectures, Callaghan must hold back on his reflationary budget plans, which would feed British monetary growth and inflation.

Still another warning came from W. Greenwell's, a London stock brokerage firm: "recent excessive monetary growth has definitely become significant." According to the *London Times*, Greenwell's further declared that "if monetary policy were tightened in the U.S. and not in Britain, a run on sterling was probable." Although the latest banking figures indicated that monetary growth declined somewhat in the month ending mid-March, money supply is still running at least 1 percent over the official target of 13 percent. Britain's official holdings of foreign currency reserves also dropped $381 million in March — $281 million net of debt repayment — indicating that capital flight may already have begun.

The dilemma for the Callaghan government is that if it tries to defend sterling by adopting a restrictive budget and jacking up interest rates, it will also destroy the international credibility of Callaghan's "coordinated reflation action program," aptly acronymed CRAP.

—*Alice Shepard*

W. German Bankers Stave Off Economic Collapse

West German industrial and government circles are desperately attempting to halt the decline in industrial orders and the stagnation in industrial output forced on their country by the collapse of the U.S. dollar. Their efforts are directly responsible for the unexpected upturn in West German domestic industrial orders for capital equipment, which began in October 1977 and has continued at the modest rate of 3 to 5 percent per month into January of this year.

It is widely hoped in these West German circles, typified by the leading spokesmen for the two major commercial banks, Deutsche and Dresdner, that the resounding defeat of French Socialist leader François Mitterrand in the French elections will pave the way for a rise in exports and industrial investment simultaneously in both countries. Two developments in France have been interpreted by informed circles as a strong opening to Franco-German cooperation on solving long-