Dollar Falls Heavily Against All Leading Currencies

FOREIGN EXCHANGE

After about a year of artificial calm on the foreign exchange markets, the U.S. dollar has been heavily falling this week against *all* the leading West European currencies and the Japanese yen. Although the high U.S. current account and trade balance deficits are mentioned as the source for the dollar weakness, this is only a subsumed aspect of a more fundamental issue, the coordinated political moves of the West European Central Banks to hold together the parities of their respective currencies *against* the dollar.

The dollar fell not only in Frankfurt and Tokyo — down to the levels of 2.3048 West German marks (DM) yesterday, its lowest level since late March 1975, and 263-265 yen — but even in Paris the U.S. currency went down from about 4.95-4.99 French francs to 4.85-4.87 French francs, despite France's own balance of payments deficit, indebtedness and unstable political situation. The French Central Bank meanwhile consolidated its reserves: its June 30 balance sheet shows 105,757 billion francs (about $21.5 billion) in gold and credits against 96,308 billion francs the previous week. This week's account includes the half-yearly accounting change under which the Banque de France evaluates its foreign holdings of gold, foreign currency and special drawing rights — a revaluation made against the dollar.

The "weak" Italian lira and British pound tended also to move upwards, but the Treasuries in both countries braked the movement so as to maintain export competitiveness and build up stronger dollar reserves to discourage future attacks against their respective currencies. British gold and currency reserves jumped again to another all-time record level in June. At the end of the month, the Bank of England held assets worth $11,572 million compared with $4,129 million only six months ago. Italian foreign currency reserves went up in a similar way, reaching $6 billion by the end of June against only $4 billion at the beginning of that month.

The similarly "weak" Scandinavian currencies continue to be supported by capital flows from West Germany and the Netherlands generated by a deliberate policy of low interest rates in the latter and high interest rates in the former. Besides, Finland and Denmark got $300 million and $500 million bank loans, while it is rumored that Sweden would obtain a $2 billion loan mediated through the Bank for International Settlements (BIS), the clearing house of Europe's Central Banks.

European Coordination

This parallel move of all European currencies against the dollar was the result of a coordinated action of Europe's Central Banks. This was first indicated by various European bankers in private conversations and then confirmed by such European publications as the London *Financial Times*, the Paris financial daily *Les Echos* and the *Frankfurter Allgemeine Zeitung*. No mystery is made by those sources that the "European front" was built against the dollar. The Banque de France and Bundesbank, for example, intervened on the market to maintain a franc-DM parity of 2.10 francs for a DM, whatever the variations of the dollar. The end result of this coordination is a defacto common European reserves system, working under West German leadership.

European support to Britain and Italy was clear in two particular instances. First, The increase in Italian foreign reserves was mainly due to West German and European Economic Community support through loans estimated to be at over $650 million. Second, a significant portion of Britain's reserves-increase came from money subscribed by investors on the European Continent who bought sterling to apply for the 53 million shares in British Petroleum sold off in London by the British government. It should be added that a significant number of those European subscribers were acting on the market following Arab orders.

It nonetheless remains clear that such a European coordination could not work for very long under a dollar-dominated monetary market. The European countries understand this point very well and are presently trying to concretize their informal and vulnerable currency agreement into a gold-based European currency reserve system. Italian bankers in particular are very active around such projects, with West German support. Discussions are in parallel development between European Central banks to finance East-West trade, coordinated planning in energy matters and monetary agreements based on a gold-pegged transferable ruble. Sources in Western Europe and in the East Bloc report that those discussions are secret but well-advanced, as proven by the declarations of West German Chancellor Helmut Schmidt in favor of "ruble convertibility" — to be understood as a convertibility with other European currencies on the basis of a common gold-reference and not as convertibility with a floating dollar.

Carter Fiasco

These West-European developments prove that the desperate operation engineered by the Carter Administration on the money markets has failed. After the Paris summit of the Organization for Economic Cooperation and Development (OECD) in June, the plans were to trigger a revaluation of the strong European currencies — DM, Swiss franc, Dutch guilder — and of the Japanese yen, and to send down the weak currencies such as the Swedish kroner, the Italian lira and other "Mediterranean" currencies. West Germany and Japan would then have had to import more and export less — losing their foreign markets and ruining their domestic indus-

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tries in the process — while the "weak" countries would have had to import less, thus cutting the supplies of their basic industries. The propitiatory attitude of the Europeans at the OECD meeting made the Carter Administration believe that it could go ahead with its project.

The European coordination destroyed those plans, and the dollar collapsed against everything. The London *Financial Times* ironically commented "What is wrong with the dollar?" in a lengthy feature article, while the *London Times* was satisfied to see that "the dollar weakness" helped the European countries to "consolidate their reserves."

Meanwhile, various U.S. financial circles, which at first had discarded the importance of the dollar fall, started to issue warnings against the U.S. current accounts deficit. Henry Wallich, Governor of the U.S. Federal Reserve stated that "the sight of a large currency deficit in the accounts of a country that is responsible for the world's principal currency is not a comforting one." Wallich, close to Rockefeller circles, was echoed by Fabian Congressman Henry Reuss, Chairman of the Banking Committee, who warned "even more damaging to us could be not the deficits themselves but our living in a fool's paradise that says the deficits don't matter." The official comment of Treasury Secretary Blumenthal was that "there is no belittling the fact that a $35 billion deficit is too large." The same official circles are now admitting that the cause of the deficit is not only an increase in the value of U.S. oil imports, but also the actual decrease of U.S. exports in volume. Between the last five months of 1976 and the first five months of 1977, the increase in dollars was only a bare one perçent — an actual decrease in real value.

This now open discussion of the U.S. economic crisis furthers in turn the European conviction that the Carter Administration and the New York banks are not competent to solve the problems of the world economy and propose no viable alternative. Otherwise, Blumenthal's demand that the Japanese government bail out the dollar by selling its reserves and sending the yen up was bluntly rejected by Vice Minister of Finance for International Affairs Matsukawa as detrimental to the Japanese interests.

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Labor Productivity: No Magic Solution

BUSINESS OUTLOOK

Within the last week, a series of think-tank and economists' reports, official statements, and private meetings indicate that a renewed push for labor productivity as *the* answer to the country's economic ills is now underway. As the economy sinks into its third quarter of production decline, increased labor productivity — replacing capital investment and higher technology with increased rates of speedup and turnover of the labor force — is being proffered as the magic solution. It is an answer which is not only destructive to the world's most highly skilled labor force but it is woefully inadequate for the economic crisis at hand.

Harvard professor and former Labor Secretary John Dunlop, and a number of private businessmen, led by General Electric chairman Reginald Jones, held the first meeting last week of a sixteen member private labor-management working group which intends to coax labor leaders to cooperate in a corporatist drive for increased labor productivity.

Mr. Dunlop, widely known as a close friend and associate of the Rockefeller Family interests, was brought into this new group because of his past experience in promoting labor productivity. The new group is similar to the now defunct National Commission on Productivity, where Dunlop last worked with Nelson Rockefeller, and which has established nearly 1,000 plant-wide labor-management committees around the country.

At its first closed door meeting in Washington, D.C. last week, the group's discussion ranged from food to energy to medical costs but issued no hard and fast policy recommendations. Instead, Dunlop's tactic is to involve the labor leadership of the AFL-CIO in determining a national productivity drive.

"Non-cooperation and hostility," stated Dunlop, "can quickly put stabilization authorities under siege with massive lawsuits, concerted legislative attacks and endless amendments to the statutory authority, and most serious of all, labor disputes that are directed against the Government and its stabilization program."

One of the participants of the meeting was Barry Bosworth of the Brookings Institution, and the Carter Administration's choice to head the Council on Wage and Price Stability (COWPS), who told a reporter that, "there has been a large influx of youth into the labor movement, whose productivity tends to lag behind the others. Without major emphasis on productivity, there won't be the sort of economic expansion the Administration has been speaking about."

The new productivity working group also included part of the Carter Administration's "anti-inflation team" including Treasury Secretary Blumenthal, Labor Secretary Marshall, Commerce Secretary Krepps, and CEA head Schultze.

Parallel to the productivity committee came the announcement by Cong. Henry Reuss (D-Wis.) that congressional forces want to establish a national apparatus to firm up private labor-management productivity under government direction. This proposal is now before the House Banking Subcommittee in the form of the "Human Resources Development Act of 1977," a thread-bare revision of corporatist plans first used by Mussolini.

At the same time, the Brookings Institution released two reports last week, both purporting to establish the macro-economics framework which would necessitate a shift in labor policy. One report by Robert Gordon