Europe Acts To Stabilize Dollar

The dollar closed last week marginally below the previous week's level at about DM 2.19 to the dollar, a dramatic recovery from the mid-week fall to a low of 2.15 to the dollar. However, the fact that the dollar survived the week without a further major catastrophe is due to what can only be described as a total mobilization for the dollar's defense by Western Europe, in collaboration with business and political circles in the United States. From a series of public and private statements by government and business officials in Western Europe, there is a broad consensus there—and in many places in the United States—that the fall in the dollar's value on the foreign exchange markets had to be halted at all costs.

FOREIGN EXCHANGE

This is not simply a monetary issue. As the Western Europeans are well aware, the dollar collapse is precipitated by the City of London, with fifth column support action from its allies in the United States government: Secretary of the Treasury W. Michael Blumenthal and Energy Secretary James R. Schlesinger—with the aim of breaking the world economy and running the remains along the model given by another British fifth columnist: Nazi finance minister Hjalmar Schacht. The British heralded their attack against the dollar Dec. 4 in an article in the London *Sunday Times* entitled "Mighty Dollar Heads for Fall." The *Times* blames the expected dollar crisis on the tremendous U.S. trade deficit and U.S. commentators predicting a $20 billion tax cut. And as the dollar plunged throughout the week, the British press applauded.

But the British plan has so far been thwarted by two key events. One was the fierce upgrading of West German Bundesbank intervention efforts on the foreign exchange markets, which penalized speculators even at the expense of short-term market stability. More important was the perception, rubbed into the market by a series of public statements, that under no costs would the Europeans permit the dollar to be destroyed. Behind these statements (see below) is the strategic estimate that the main short-term source of dollar weakness came from the City of London, which encouraged the fall of the dollar to suit its own ends.

On Friday, Dec. 9, wire services carried a leak that the finance ministers of the United States, West Germany, Britain, France, and Japan had met in secret in London on Dec. 3 to discuss the decline of the dollar. Details of the meeting have not yet been disclosed. However, banking sources with direct knowledge of these events report that the meeting probably marked the end of Michael Blumenthal's and James Schlesinger's careers in government. "Pressure on the Carter Administration from the Europeans is so strong that it doesn't look like Schlesinger and Blumenthal can last," said one former Ford Administration official, now in private finance. "Don't quote me, but it's not going to be long before they're out." Well-informed Western European sources also cite a perceived change in attitude by the Carter Administration.

To a greater extent, this pressure has been mediated through former Ford-Nixon Administration officials with close contacts in Western Europe, including former Treasury Secretaries John Connally and William E. Simon, according to European banking and industry sources. Reportedly, Simon is working with the U.S.-European Joint Businessmen's Council to put together lobbying pressure on the Administration.

At the moment, the attitude of the Administration is difficult to gauge. Official and off-the-record statements by the Administration's spokesmen do not indicate a change in policy, with one or two key exceptions, including remarks by Eximbank president John Moore in Chicago Dec. 8 critical of the Carter Administration's policy on nuclear exports. The *Washington Post*'s economics editor Hobart Rowan printed an interview Dec. 9 with Undersecretary of Treasury Anthony Solomon stating the Administration's position. Solomon claimed that the Administration was not concerned about the weakness of the dollar. He pointed to the continued large capital account surplus of the United States—failing to mention that more than half of that surplus reflects the purchases of U.S. Treasury securities by the Western European and Japanese central banks, in consequence of their intervening in the market to buy dollars that private sector dollar-holders sold off. An unnamed Federal official was quoted on newswires Dec. 9 saying that the U.S. will not intervene to support the dollar, adding that the reasons for the dollar's weakness were fear of the OPEC meeting and Congress's failure to pass the Administration's energy legislation—which most Europeans would laugh at. Federal Reserve offficals who personally support a strong intervention policy are "pretty hopeless," according to one source, that the Treasury will permit further intervention.

However, the matter appears to be out of the hands of the Administration. In the United States, there has been a frantic round of meetings including senior officials of large commercial banks, the New York Federal Reserve, and selected politicians over emergency

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strategy to deal with the crisis. "Forget about yesterday's crisis, or tomorrow's crisis," said one participant in these meetings. "Look at the situation in broad perspective. The exchange rates problem has been finessed for the past 30 years, first by Bretton Woods, by forcing everyone to accept a dollar peg, and then by so-called floating rates. There is no way we can go back to any of this."

Gold on the Horizon

One of the factors making American leaders jump is the not-so-covert European threat of a return to a gold reserve basis of some kind if the dollar should continue to fall. In a press statement Dec. 4, Swiss National Bank President Fritz Leutwiler made public a proposal that he has circulated in private for some time, i.e., for the U.S. to sell gold reserves to Western European central banks in order to obtain the wherewithal for intervention on the foreign exchange markets. Although the U.S. is not likely to accept the proposal—as Leutwiler has informed his friends—the impact of the statement lies in the first-since-1971 reference to the use of gold for central bank transfers by a leading central banker.

It is highly significant that the *Wall Street Journal* editorialized favorably on the Leutwiler statement in a Dec. 9 editorial entitled, "Malign Neglect."

U.S. policymaking circles are broadly aware that they Western Europeans mean business on the subject of gold. The National Security Council is currently preparing an assessment of the Leutwiler statement. Virtually the only section of the U.S. financial community that presents a different evaluation is the British-connected investment banks. One top investment banker protested, "I just had dinner with Gordon Richardson (Bank of England president—ed.), and he assured me that (a European return to gold) will never happen."

At the moment, the Western European orientation is to intervene in the U.S. political situation and use their own resources to stabilize the dollar for as long as possible, recognizing, as Bundesbank President Otmar Emminger said in a press conference Dec. 8, "We alone cannot resist the pressures on the dollar coming from all over the world." According to West German official sources, the Bundesbank and Bank of Japan are negotiating to create a facility "to support the dollar until we both go bust."

Bundesbank Aid to Dollar

Officially, the Bundesbank intervened with $2.4 billion during the month of November alone, all of which represents an equivalent increase in West German money supply. In effect, the Western Europeans are temporarily putting aside their own economic stabilization efforts on behalf of the dollar. They are counting on a change in Washington, knowing they will not be able to sustain these levels of intervention.

Possibly an even greater sacrifice is the form that West German intervention has taken. After the dollar fell through the "psychological barrier" of DM 2.20 to the dollar on Monday and Tuesday, falling by a solid percentage point on each day, the Bundesbank stopped attempting to smooth out market fluctuations, and instead intervened with the objective of burning the speculators. Instead of buying dollars at the morning fixing on the Frankfurt market, permitting speculators to get a good price for their dumped dollars, and then letting the dollar rate drift down later in the day, the Bundesbank permitted the market to fluctuate wildly on Wednesday and Thursday. The dollar swung within a band of DM 2.15 to DM 2.18 to the dollar, according to Frankfurt market participants, as the Bundesbank let the rate fall quickly, and then intervened to turn the rate around, catching some of the dollar-sellers with a loss. By Friday, the market had quieted, leaving the Bundesbank temporarily in possession of the field. Central banks generally avoid doing this—although central bankers enjoy it immensely—because the wide swings in currency rates are potentially disruptive of trade.

But the intervention policy cannot hold for long, unless some fundamental redirection of U.S. policy to stimulate American exports is introduced. A growing section of American business is lobbying for an expanded role for the Eximbank, including utilization of the Eximbank's dormant commercial banking powers. Surface impressions to the contrary, most of the Western Europeans are sympathetic to this type of approach. In interviews with *EIR*, West German bankers, academics, and trade association specialists expressed support for a strong U.S. export profile, viewing the health of the dollar and the U.S. ecoonomy as more important than short-term considerations of market share.

How Europe Reacted To The Dollar Collapse

Swiss National Bank President Fritz Leutwiler, in a press statement Dec. 5:

You can no longer say that what the United States is doing is benign neglect for the dollar. It is now malign neglect on the part of the United States. The United States has good reason to worry about its currency. If the dollar continues to go down, it will incite the oil producers to raise their prices. There is a risk of less economic growth in countries like West Germany and Switzerland.

Where should the United States get the foreign exchange with which to intervene? There are large and unutilized swap nets that should be used to support the dollar. The U.S. and European central banks could share the gains and losses of intervention. If the U.S. wishes to intervene to support the dollar without borrowing, it can obtain Swiss francs and Deutschemarks by selling gold.

Dr. Otmar Emminger, President of the Deutsche Bundesbank, in a press statement in Frankfurt, Dec. 8:

The present dollar-mark rate is totally out of line with reality... the Bundesbank will intervene not only to smooth out the day-to-day fluctuations, but will intervene to control the fall of the dollar.