International Support Operation For The Dollar

All evidence available to this news service, including late wires at deadline, indicate that a major shift occurred over the past week inside the Carter Administration. The shift centers nominally on the question of the dollar's foreign value, but has implications for the entire range of U.S. and foreign economic policy. The market broadly believes that such a shift is in action, judging from the sharp rise in the dollar over the week from 1.98 deutchemarks at the Frankfurt opening on Monday morning to a high of DM 2.06 and Swiss franc 2.00 in trading Friday, and also from the end-of-the-week rally on the New York Stock Exchange.

The elements of the policy shift are as follows:

First, an agreement between the Europeans and the United States was negotiated between Swiss National Bank Managing Director Pierre Languetin and a group in the Administration during Languetin's visit to Washington last week. Languetin, according to authoritative sources, presented these suggestions: (1) Expansion of existing swap lines, and (2) gold transfers to finance U.S. foreign exchange purchases, and "to procure foreign exchange reserves that would enable it to reach its long-term objectives of reducing its payments deficit," as the Swiss central banker told the Swiss Telegraph Agency today.

Early reports from the Languetin trip, relayed in last week's issue, indicated that the mission had been a failure. However, a two-level initiative over the last several days points to the likelihood of a policy reversal in Washington last weekend. The players to watch are Assistant Secretary of Commerce Frank Weil, Eximbank Chairman John Moore, and, most important, Special Trade Representative Robert Strauss — who will probably be Treasury Secretary not too long from now.

First of all, the dollar was stabilized through coordinated market intervention by the European central banks, and a private sector group including U.S. and European corporations. The central figure in, if not the inspiration of, the latter development is Chase Manhattan Bank Chairman David Rockefeller. Rockefeller's tour of the Persian Gulf during the first week of March, which had the stated objective of persuading the oil countries to support the dollar, yielded a series of unambiguous Saudi official statements in support of the dollar. These statements themselves had a significant impact on market psychology, but one feature of Saudi finance minister al-Khalil's public pronouncements indicated the entire direction of international monetary negotiations over that week. The Saudi called on the U.S. and West Germany to set a fixed limit of fluctuations, that is a peg, between the dollar and deutschemark. Later, wires and press scuttlebut mooted this possibility, which NSIPS's well-informed banking sources report has been agreed to between the United States and West Germany.

The Saudi role, shaped under Rockefeller's advice, made possible a whole set of nifty operations. On Monday morning a West German automaker bought $200 million and pushed the dollar up by six pfennig, setting the tone for the week. Sources directly involved in the Monday morning fix explain that this was an intentional move to burn the London bears — who were taking short positions against the dollar with wild abandon on the previous Friday afternoon. Chase, Citibank, and Morgan came into the market heavily throughout the week purchasing dollars, and putting out word — which NSIPS heard played back through the treasurer's offices of several multinational corporations — that a bull market for the dollar was on.

Reportedly, Rockefeller also had persuaded the Saudis to offer the United States foreign currency swaps for dollar support operations, which also came up in the Languetin discussions with the Treasury and other Administration agencies. The atmosphere in the White House suddenly turned sour for W. Michael Blumenthal. The dollar-dumping Treasury Secretary was hauled into the White House three times during the week of March 3 for a severe dressing-down, and an agreement was struck with the West Germans — announced by President Carter in his Thursday press conference — over Blumenthal's head. There is a consensus among highly informed Washington and Atlanta sources that Blumenthal is in grave danger of losing his portfolio. Swing elements in the White House, for example Stuart Eizenstadt, have turned viciously against him. Blumenthal ally Charles Schultze, the Council of Economic Advisors Chairman, has been cut out of the action, according to friends.

The content of the reported agreement between the U.S. and Western Europeans is, in effect, remonetization of gold, as Languetin had asked. That is the content of such cryptic reports as today's prediction on the Dow-Jones broadtape that there would be "some sort of official monetary operation that would result in a boost in U.S. official reserves, giving Washington both the wherewithal to repay its short-term swaps and ammunition to support the dollar over a longer term until the U.S. balance of payments deficit shows signs of an improvement." The point of revaluing U.S. gold stocks is not to merely earn additional foreign exchange for intervention purposes, but to finally give the central banks the resources with which to outgun the speculators (see *Gold*). The view of this author as published in Vol. V, No. 8 of the *Executive Intelligence Review*, that for special reasons remonetization of gold would help, rather than hurt the dollar as usually assumed, is presently shared by a large number of influential people in the Aministration.

The Administration also appears to be leaning in the direction of the viewpoint of this publication, namely that the payments deficit must be corrected on the exports side, and that export-support institutions such as Eximbank, Overseas Private Investment Corporation, and the Commodity Credit Corporation must undergo major expansion. Robert Strauss played down the gains to be expected on the payments side from energy conservation in a breakfast meeting with reporters Thursday. Eximbank President Moore called for long-term, low interest credits to support exports to developing countries in testimony before the Stevenson subcommittee of Senate Banking on Thursday, prompting Sen. Stevenson to demand an Administration study of the problem — and prompting ex-Kissinger aide Robert Hormats, testifying on behalf of the State Department, to climb the walls of the committee room. The Eximbank staff is also reported to favor direct Eximbank borrowing on the Eurodollar markets, to convert surplus dollar liquidity into trade credits.

—David Goldman

Fight To Save Dollar Goes Public

FOREIGN EXCHANGE

Various international forces have initiated a public fight to reverse the decline of the U.S. dollar, and put a stop to the currency dumping raids kicked off by British banks intent on collapsing the U.S. economy. Western European corporations and public officials, U.S. commercial banking representatives, and officials from Japan and Saudi Arabia undertook measures this week aimed at not only stabilizing the dollar, but pressuring sensible layers in the U.S. Administration to adopt longer-term policies adequate to backing up the international reserve currency with strong U.S. industry.

As a direct result of these actions, the dollar ceased falling under British "bear raid" pressure in the early hours of March 6, nervously held to a 2.025-2.035 deutschemark range in Western Europe through March 9.

Informed Western European circles concur with a March 8 report in France's *Le Figaro* that the Carter Administration has been pressured to agree in principle to some kind of stabilization arrangement, pegging the dollar to the deutschemark and yen. Moreover, these circles have revealed that the President and U.S. monetary officials have been told by responsible Western European leaders that the optimal policy for bringing this about is the creation of an expanded Western European currency "snake" linked to central bank gold reserves.

Simultaneously, a consensus is building in informed U.S. circles that long-term resolution of the dollar crisis must be grounded in a government policy commitment to gear up U.S. exports. As shown by an analysis in the Feb. 27 *Money Manager* magazine, U.S. industry has rejected the approach applied to the pathetic British economy — and most recently proposed by former Treasury Secretary Henry Fowler, a Goldman Sachs partner, at an international bankers' gathering in Brussels — that currency depreciation be urged to increase the U.S.

The Dollar: 'Treasury Is Just Not Interested'

A Washington monetary official told an interviewer this week that Treasury Secretary Blumenthal intends to let the dollar collapse:

Q: Did Pierre Longuetin of the Swiss Central Bank propose to Treasury Secretary Blumenthal that the U.S. swap gold to European central banks at market price to support the dollar? What was the U.S. reaction?

A: Look, Longuetin did his best; he proposed that, he proposed all sorts of things. But the Treasury told him to go to hell. They have no intention of using gold, or foreign exchange swaps, or foreign currency bonds, or SDRs, or anything to stabilize the dollar. They intend to let the dollar go as far as it goes.

Q: What about U.S. corporations and commercial banks? Rumor has it that the oil company and Saudi-linked types are especially concerned to keep the Saudis and OPEC in the dollar and are putting some pressure on Treasury...

A: Some pressure, are you kidding, the New York banks are calling up Blumenthal every day to demand he turn the dollar situation around. They tell him the dollar is way undervalued, that all it would take would be one, good quick intervention to turn the situation around and send the dollar back up in the markets. But Treasury is just not interested.