"market share" of exports at the expense of the West Germans and Japanese.

Money Manager guest-writer Adolph Warner proposed that major U.S. corporations and the Administration act jointly to take advantage of the "leads and lags, within multinational corporations and externally...(to effect a) one-time swing in dollar demand . . . A dramatic return of confidence in the dollar would create a gigantic 'bear squeeze' " on antidollar speculators. In a series of attacks on the U.S. Treasury's "let the market take care of itself" policy, Warner states that the Administration must take "positive responsibility for promoting exports and encouraging capital inflows, instead of preaching reflation to a world of nonbelievers."

Warner's approach is an adaptation of the policy proposals issued by U.S. Labor Party chairman Lyndon LaRouche at the outbreak of the dollar crisis in February.

In addition, the reversal of the dollar's fall in the early hours of March 6 happened as a result of a coordinated intervention into the Western European market of exactly the kind Warner outlines. At the opening of the market that day, two private Western European corporations put in an order for more than $500 million, yanking the rate up from its Asian peg that morning of 1.99 marks to 2.05 marks.

Since then, the dollar has been kept within a relatively stable range by purchase arrangements worked out between the West German central bank and private banks, whereby the central bank is buying on the basis of "forward" contracts to resell the dollars in the private sector. Such agreements could only be carried out under the assumption that currency dumping will be kept under control.

The Blumenthal Factor

A major public fight around currency policy has already erupted in Washington and could go public at any time. Treasury Secretary Werner Michael Blumenthal, acting in tandem with another British agent-of-influence, Energy Secretary James R. Schlesinger, is counting on the Schlesinger-prolonged coal strike to drastically depress the U.S. economy and prevent a revival of market confidence in the dollar, before any consolidated dollar support program is implemented.

Pending the mass layoffs and industry shutdowns promised by prolongation of the strike, Blumenthal has cut the Treasury off from any contact with international prodollar forces. According to a Washington monetary consultant, Blumenthal recently greeted Pierre Longuetin, spokesman of the Swiss Central Bank sent to Washington to discuss monetary problems, by telling him "to go to hell." Similarly, "The New York banks are calling up Blumenthal every day to demand he turn the dollar situation around," the source noted, "but Treasury is just not interested."

Blumenthal's actions represent open sabotage of the intent implied in a March 8 official government statement carried on international wires that recent discussions between U.S. and West German officials had resulted in agreement that the dollar must be restored to a 2.20 mark level as soon as feasible. His ability to undermine the dollar at this time is partly limited by the repeated public statements of Saudi Arabian officials that they will not abandon the dollar for an alternative means of payment under any circumstances. The firm Saudi position has helped to take the wind out of threats issued by British-linked Persian Gulf oil producers, notably Kuwait, that they are preparing to accept SDR's and other fictional substitutes for dollar payment.

Some surprises may be in store on the Tokyo market, where the dollar continued to drop to record lows under heavy trading at close to $1 billion per day. Prime Minister Fukuda has publicly called for "an international cooperative system" to stabilize parities, and it is generally recognized by currency traders that 230 yen could be the cut-off point at which the Bank of Japan will take more aggressive action to clamp down on speculation.

— *Renee Sigerson*

'To Aid The Dollar, Squeeze The Bears, Promote Exports'

Money Manager *magazine tells President Carter how to "intervene" on behalf of the dollar:*

Any... purist notion of free markets as the final arbiter of the "right" exchange rate ignores the real world of politics. It postulates that sovereign governments abdicate their overriding responsibility for the country's basic welfare — not to mention its economic relations with the rest of the world...

The United States Government has consistently argued against market intervention extending beyond the amounts required to prevent disorderly markets, or to smooth out excessive or erratic swings in exchange rates. This argument dates back to the demise of the Bretton Woods system, and reflects a facet of monetarist doctrine that its opponents like to brand as benign neglect.

More recently, however, it has also reflected a spreading recognition that no amount of intervention can ever substitute for sound policy...

So there is much sense behind the Administration's earlier, but persistent, opposition to stepping up its hitherto sporadic resort to market intervention. This does not, of course, excuse the Administration from its positive responsibility for promoting exports and encouraging capital inflows, instead of preaching reflation to a world of non-believers.

(There have been): Growing complaints about the persistent accumulation of dollars in foreign central bank's reserves. These banks, incidentally, were free to switch any dollars they consider excess into gold on the free market beginning in February.

Foreign fears of the unknown policy implications of the President's choice of G. William Miller to succeed Arthur Burns.

The latent threat of further trade and capital restrictions that have had many observers worried about a possible return to dual exchange rates in some European countries... Are we, then, to conclude that there is no hope for the dollar's recovery?

Hope, indeed, there is — although not certainty...

In the foreign trade area, balancing our accounts through higher exports is clearly preferable to the alternative of reducing imports (other than oil). Yet the Administration still advocates phasing out the DISC tax provisions introduced only a few years ago to match similar export incentives provided by many foreign governments...

In the capital accounts area, on which we will have to rely for years to come for financing our current account deficits, more can be done. Eliminating the withholding tax or bond interest earned by foreigners here would put our domestic bond market back to yield parity with Eurodollar bond market, and restore our role as the world's preemiment financial center...

The hope rests on two elements: technical market position and new policies. Sound management of the dollar will start from an understanding of how to take advantage of both. The technical element lies in the enormous size of actual and potential short positions in the dollar.

Futhermore, leads and lags, within multinational corporations and externally, probably represent a potential one-time swing in dollar demand that exceeds the combined intervention war chest.

Speculative positions have also grown. Last year, the reported foreign exchange volume tripled on the Chicago International Money Market, which has given the odd-lotter access to such trading. While the data are not sufficient to permit estimates of the total size of all these short positions (and definitions are bound to vary), there can be little doubt that a dramatic return of confidence in the dollar would create a gigantic "bear squeeze."

Schmidt Calls For 'Strong Dollar'

Addressing the March 9 session of the West German parliament, Chancellor Helmut Schmidt expressed his government's "firm belief that President Carter is moving on the basis of a policy for a strong dollar; both Carter and I want the dollar to be up-valued." Schmidt's statement came only hours before Carter told a press conference that he and Schmidt had begun a series of intensive telephone consultations on monetary and other matters.

Six days earlier, the Chancellor commented at length on West Germany's close relations with the U.S. in an address to the Hamburg-based Far East Society. As the excerpts below demonstrate, Schmidt's major difference is not with the U.S. as an industrial world power, but with elements in the U.S. Administration who are trying to stop the U.S. from playing that role.

The German Federal Government and the American Administration are presently engaged in talks that, because of the many problems confronting us, touch upon a variety of topics. In view of the manifold solutions to these problems that can be envisaged, or that have been offered to us, we are apt — as happens only among friends — to adopt different viewpoints and to fall into disputes. Thus, controversies do arise, but neither of us is oblivious of what I would like to call the German-American consensus.

Our friendship rests firmly on historical, intellectual, and also human ties, together with the far-reaching identity of our political and social values. The extent of our bilateral trade, and the close interrelationship of corporate enterprises on both sides, should be seen against this background. The same holds true with regard to the cooperation of our central banks on issues pertaining to international currency, and with respect to other types of cooperation as well.

German-American partnership, furthermore, is an element of stability on which the world counts, and of which the world may be absolutely certain.

In the military sphere, too, a visible U.S. presence in Europe, including the presence here in our country, is more than a consideration of power relationships or a factor maintaining the balance; this U.S. presence is at the same time a commitment based on conviction. It is a commitment that we — equally convinced of the stakes and just as conscious thereof — do all within our power to try to strengthen.

I consider it appropriate to counter, with this statement, the irritations that are often voiced and written about, and I want to add a very simple phrase: "There is no way in which the German-American consensus could be endangered"...

Thirdly: we note our agreement on questions of energy. To be a little more precise, it is the governments of both nations that note their agreement on questions of energy.

Our country is a member of NATO, an alliance designed for collective defense only. Our own armed forces have been integrated into this alliance. Thanks to them, we contribute appreciably to overall military capacity. In view of the nuclear threat that we all face, we rely on the U.S., as the leading nuclear power of the alliance, for necessary protection and for the appropriate manufacturing decisions....

It should be emphasized very clearly that the Federal Republic of Germany is deeply concerned with the control and limitations of armament.... We are vigorous supporters of the Strategic Arms Limitation Talks.... In the future, too, we shall leave no stone unturned, in constant consultation with our allies, to make substantial progress in armament control negotiations, notably the MBFR ones (Mutual and Balanced Force Reduction Talks—ed.). The latent danger of conflicts and wars can be prevented if armament control and disarmament are successful.