Europe Raises Dollar Level

But austerity advocates still out front in U.S.

In the wake of President Carter's Aug. 16 announcement that his Administration will pursue active dollar-support measures, domestic and foreign advocates of U.S. economic shutdown moved into the foreground while European and Arab leaders stabilized the dollar's exchange rate.

FOREIGN EXCHANGE

Most explicit about the shutdown was Federal Reserve chairman G. William Miller. In an Aug. 24 interview with the *Wall Street Journal*, he conclusively confirmed this journal's January 1978 assessment that the former corporate asset-stripper would apply himself to the same task for the U.S. economy as a whole, under the influence of the Anglo-American deindustrializers who shaped his career. Miller targeted corporations in the interview with a proposal for an "excess profits tax," grotesquely suggesting that high profits per se are inflationary. He targeted U.S. commercial banks with a threat that his London-centered allies will create "19th-century money panic" in the Euromarkets, precipitating a wave of banking collapses, if U.S. institutions are not forced to relinquish their Eurodollar operations—which is what his proposed reserve requirements would mean. All this was in the name of dollar support.

Simultaneously, the *Financial Times* of London launched a rumor campaign picked up by the wires that the U.S. will draw some $4.3 billion in foreign currencies and/or Special Drawing Rights from its reserve line deposited with the International Monetary Fund (IMF). Questioned by reporters on Capitol Hill, Treasury Undersecretary C. Fred Bergsten said that this means of adding to the Federal Reserve's foreign-exchange market intervention capacity was a possibility, but no decision had been made. Bergsten also confirmed that such a magnitude of withdrawal from the Fund might require an activation of the "rich countries'" General Agreement to Borrow to replenish IMF resources. Ironically, this in turn would enable the continental creators of the new European Monetary Fund to simply decline such replenishment, and throw the IMF into polite retirement.

Dollar Stabilization

In coordination with Carter's acknowledgement of a dollar crisis, meanwhile, those Europeans put an effective two-deutschemarks-to-the-dollar floor under the U.S. currency's parities through market support intervention and talking up the dollar. The French and West German central banks were joined in the action by the Swiss, whose operations against the dollar they had reversed through concerted pressure.

The dollar closed Aug. 24 at 2 marks—whereas before Carter's statements and the heightened European actions it had been at 1.92 on Aug. 15; during the same period it rose from 1.54 Swiss francs to 1.66.

The pound sterling had been pushing the $2.00 level, and sank to $1.92, not because of any Bank of England aid to the dollar, but because dollar strength is now universally viewed as adverse to sterling, and vice versa. The British-coached Kuwaitis at the same time tried to place a ceiling on dollar rates by selling off dollars, but were overshadowed by promising developments in the European Monetary Fund-Arab Monetary Fund negotiations (see World Finance) as well as Saudi Arabian statements of dollar commitment. The Federal Reserve, meanwhile, under Administration pressure, was making modest but conspicuous, repeated, and politically necessary dollar-support interventions in the markets as well.

U.S. commercial banks, however, were reported by the Aug. 24 *Journal of Commerce* and others to be "talking down the dollar" to save their short-term hides: they have not only been taking direct short positions against the dollar, but counting on the appreciated proceeds of their foreign-currency Euromarket credits to make up for the thin spreads on those assets forced by London's cut-rate competition, by the less-developed countries' shrunken ability to borrow due to IMF controls, and by a decline in multinational loan demand.

The Austerity Drive

What made the most thunder on the U.S. scene was not European support for the dollar, but the austerity drive. On Aug. 20, Energy Secretary Rodney Schlesinger declared on television that "imported oil is wrecking our balance of payments" and the dollar. Schlesinger claimed that if Congress does not move on his energy-contraction legislation, "the impact on the dollar will be devastating."

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Schlesinger's falsehood about the balance of payments has been exposed repeatedly in recent weeks—yet those who point to the fact that energy-import-dependent West Germany and Japan run surpluses are promoting not a U.S. export drive but all-out austerity beyond the oil-tariff gimmicks.

Schlesinger and his antigrowth allies Treasury Secretary Blumenthal and Miller had been unable to win a full shutdown package at the National Security meetings the week of Aug. 14-18 that addressed the dollar question. While the London press played up alleged differences among the unholy trio, the *London Times* also leaked the Treasury's "maximum program." This program includes not only oil import fees and Miller-endorsed "voluntary wage-price controls" but a British-style "corset" on banks' ability to lend, and Miller's imposition of reserve requirements on Eurodollar dealings.

The Defense and State Department Secretaries, Harold Brown and Cyrus Vance, who had reportedly called the NSC conference to stem the disruptive effect of dollar depreciation on American foreign relations, had no counterpolicy to put on the table.

Miller proceeded to jack up the Fed funds rate—the overnight interbank lending charge—by a quarter of a point to 7.75 percent, with every prospect that a similar hike will occur to 8.25 percent in the discount rate, the rate at which banks borrow from the Fed. The action is intended to crimp credit at a time when the U.S. economy is beginning to show signs of a slowdown, and to serve as a simultaneous foil for propaganda (see below) that more stringent moves are required.

In tandem, the Treasury announced Aug. 23 that it would almost double its auctions of U.S. gold reserves to 450,000 ounces, or roughly 3 percent of total American holdings, over a four-month period starting in November. This is supposed to magically invert the drop in the dollar and the rise in the gold price. Mainly, it is intended to "represent further progress toward elimination of the international monetary role of gold, in the words of an official Treasury statement. This effort, short-sightedly sanctioned in the 1970s by the majority of growth-oriented American business leaders, has now become a specific if impotent attack on the European Monetary Fund's potential for gold-backed international development credits.

False Choices

The practical remedy for inflation is and has been expanded production and technological development, which under present conditions can only be attained by a new world monetary system based on long-term, low-interest credit flows for trade, productive investment, and cheap, highly efficient nuclear energy. Also required are corresponding penalties on speculation and a freeze on various categories of debt that are presently unpayable but continue to clog the books and inflate costs. Both Carter's Washington supporters and a large number of top corporations, however, are still caught in a series of false choices regarding the dollar and inflation.

Many companies say anything would be better than the dollar decline that is eroding their profits and the dollar instability that is wrecking their planning abilities—so they will tolerate a credit crunch as the lesser evil.

London's Prescriptions For The Dollar

To preempt President Carter's public quest for a dollar policy, the London press redoubled its recent prescriptions for austerity. The New York and Washington papers followed suit, wailing about inflation and then advancing hyperinflationary remedies including oil-import reductions and higher credit costs. While U.S. money supply growth has not been abnormal, these austerity advocates clamor for a crunch in order to undercut the potential for extremely positive government outlays to underwrite nuclear energy and export expansion. The same commentators agree that whatever the Administration does about the dollar will put Carter in deeper and deeper political trouble—a true assertion, until Washington moves with an economic development policy.

Don't Intervene in Markets; Cut Oil Imports

Christian Science Monitor, Aug. 21, "The Disorderly Dollar"

...The Carter administration remains on solid ground with its basic policy of not intervening with specific dollar-boosting tactics except to reduce disorder in the international money markets.... Congress must do its part in providing the energy legislation to address such matters as the excessive import of oil. . . America's friends abroad . . . must continue measures to spur their own economic growth....

Sunday Telegraph, London, Aug. 20, "Carter Drops Oil Surcharge Plan"

The truth is that Carter's energy legislation, like his dollar policy, is long on good intentions and very short on correcting the specific problems that have brought the American economy and its currency to such a sorry state.. . . the decision not to do anything about oil imports goes against the direct advice of Treasury Secretary Michael Blumenthal. . . . A presidential act clamping down on the flow of oil into America would